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# BRIDGING THE GENDER GAP: ELIMINATING RETIREMENT INCOME DISPARITY FOR WOMEN

## HEARING

BEFORE THE

## SPECIAL COMMITTEE ON AGING
## UNITED STATES SENATE

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# BRIDGING THE GENDER GAP: ELIMINATING RETIREMENT INCOME DISPARITY FOR WOMEN

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**WEDNESDAY, MARCH 15, 2006**

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
*Washington, DC.*

The committee met, pursuant to notice, at 10:10 a.m., in room SD–106, Dirksen Senate Office Building, Hon. Gordon H. Smith (chairman of the committee) presiding.

Present: Senators Smith, Kohl, Carper, and Salazar.

## OPENING STATEMENT OF SENATOR GORDON SMITH, CHAIRMAN

The CHAIRMAN. Good morning, and we thank you all for coming. We are here today to discuss a topic of growing concern in America, women and retirement security. We will explore reasons why there is a gap in retirement income between men and women and the factors behind why women face greater financial risk in retirement.

Preparing for retirement and achieving financial security are daunting tasks for all Americans, to be sure. However, women face many unique challenges. For example, women still perform the primary caretaker role in our society. As a result, many women spend significant periods of their lives out of the workforce raising children or taking care of elderly parents, and significantly diluting their earning power. Women also are more likely to work part time, or work in industries where employers are less likely to offer retirement benefits; Women generally earn less than men. In 2004, women earned 77 cents for every dollar earned by men.

All of these factors have a significant impact on what women receive from Social Security and pensions, as well as what they are able to accumulate through personal savings. The bottom line is, it is harder to accumulate retirement savings income when you are making less money and working for fewer years. As a result, women receive significantly less during retirement income than men. This is true for all three legs of the retirement income stool: Social Security, pensions, and savings.

In 2004, the median annual income of women over the age of 65 was $12,000. Men, on the other hand, had an income of about $21,000. Although this figure is extremely low for men as well, women received almost half of what men collected in retirement.

This income gap is further exacerbated by the fact that women generally live longer than men, and therefore need to stretch their income over a longer period of time.

Equally disturbing is the high rate of poverty among older women. Of the 3.5 million Americans over the age of 65 who were in poverty in 2004, about 70 percent of those were women.

Due to many factors, including high divorce rates and the fact that women generally live longer, many women will spend a portion of their retirement years without a spouse or significant other. However, living alone can have serious consequences on one's financial security. In 2004, the poverty rate for married women over the age of 65 was 4.4 percent. For unmarried women, the poverty rate was 17.4 percent, almost four times higher. The rate is much higher for single Black and Hispanic women.

I have spent a great deal of time over the last year examining the issues of retirement savings and security. Last June, I introduced a bipartisan bill with Senator Kent Conrad of North Dakota dealing with this issue. Although the bill is aimed at increasing savings and ensuring greater financial security in retirement for all Americans, many of the proposals address the unique challenges that women face.

Our bill encourages employees to adopt automatic enrollment in 401(k) plans. It also expands the credit which encourages low and moderate income individuals to save. Another key component provides incentives for lifetime payments.

Although these are good first steps, more needs to be done, and I am currently developing legislation with the specific goal of narrowing the retirement income gap between men and women.

To assist in drafting this bill, I have organized a kitchen cabinet of retirement experts who are concerned with the financial security of women. This group includes benefits attorneys, financial services companies, advocacy groups, and organizations representing employers. My hope is that by bringing together this broad coalition, we will be able to develop a bipartisan solution to this very challenging problem.

Last, I would like to thank our witnesses who join us this morning. I am eagerly anticipating your testimony, and look forward to a productive dialog on ways that we can begin to eliminate the retirement income gap. So, with that, I am pleased to turn to my colleague, the Ranking Member of this committee, Senator Kohl of Wisconsin, for his opening remarks.

## OPENING STATEMENT OF SENATOR HERB KOHL

Senator KOHL. Thank you very much, Mr. Chairman, for holding this hearing. As we will hear today, women tend to receive less income during their retirement years than men. In fact, they get only about 53 percent of what men receive. The poverty rate for single women of retirement age is a staggering 17 percent.

Retirement security is often thought of as a three-legged stool: Social Security, employer pensions, and private savings. But it is clear that for too many women facing retirement, that stool is shaky. We must strengthen all three legs, and also promote a fourth leg—the opportunity to continue working past retirement age for those who need to do so.

Social Security is the foundation of retirement security for everyone, especially women. In fact, it is the only source of income for over one-quarter of single elderly women. Social Security provides a guaranteed benefit, which is even more important now that individuals are bearing more risk in defined contribution plans. Furthermore, Social Security benefits are protected from inflation and guaranteed to last a lifetime. This is especially important for women, who on average live about 5 years longer than men. Finally, Social Security is progressive—it replaces a larger share of earnings for low earners, and women tend to earn less than men. Social Security is a lifesaver for many women, so we must protect and strengthen it.

But because Social Security was never meant to be the sole support after retirement, we must also strengthen employer pensions and private savings. Women are more likely than men to work part time, and therefore are less likely to be covered by a pension plan. Women are also increasingly at risk of outliving their savings because, unlike traditional pensions, few defined contribution plans offer to pay out benefits as an annuity—an income stream that is guaranteed to last a lifetime. We should encourage 401(k) plans to offer an annuity payout, and encourage participants to choose this option. In addition, we should extend and expand the Saver's Credit, so we can help lower income people, many of whom are women, better save for retirement.

Even with such improvements, many baby boomers will choose to work longer. Some will work to stay healthy and productive, and some will work because they need to build more savings for a comfortable retirement. This new fourth leg of the retirement stool—continued work past traditional retirement age—will be especially important for women, who tend to live longer than men.

Yet for several reasons older women are less likely to participate in the labor force today, making saving for retirement more difficult. First, women are more likely to seek part-time and flexible work schedules, and companies are less likely to provide pension plans for part-time workers. Second, many women are responsible for caring for elderly or disabled relatives. Caregivers reduce their earnings, Social Security benefits, and pension benefits—on average a total loss of about $659,000 over a lifetime.

I have introduced legislation that would address these barriers and expand the time that older workers have to work, save, and secure a more comfortable retirement. The bill would provide tax incentives for businesses that hire and retain older workers, offer them part-time and flex-time opportunities, and include them in the company's pension and health insurance plans. It also seeks to ease the burden on caregivers, who more often tend to be women, by giving a tax credit to workers for the care of their senior family members.

So we face an enormous challenge, but if we can work together for common sense reform and encourage businesses to adopt best practices, we can ensure that all four legs of the retirement stool, including the opportunity to work, stand firm for women. I look forward to continuing that dialog with our guests here today.

Thank you, Mr. Chairman.

The CHAIRMAN. Thanks, Senator Kohl.

Senator Salazar of Colorado.

## OPENING STATEMENT OF SENATOR KEN SALAZAR

Senator SALAZAR. Thank you very much, Mr. Chairman and Ranking Member Kohl, for holding this important hearing. I appreciate the opportunity to shine a spotlight on the unique challenges facing women as they prepare for retirement.

For me, I have a personal agenda in part here because I have, as my progeny, only two daughters who are now 17 and 18 years old. I look forward to them at some point, after a long, productive life in the workforce, to be able to retire with security.

Today we have in my State 431,000 individuals over the age of 65. Fifty-six percent of that entire number represent women in my State. Colorado is a relatively young State. The U.S. Census Bureau has ranked Colorado 48th in the Nation for the ratio of those older than 65 to the overall population. I believe that we have an opportunity to encourage our younger generations to save and to plan for their retirement.

That said, Colorado is graying like the rest of the country. In fact, three Colorado counties, Douglas, Park, and Summit, were among seven across the country that saw the number of residents age 65 years and older double between 1990 and 2000.

While the demographics of the next generation of retired Americans will differ from previous generations, the next generation will be healthier and have higher levels of education and income, so not all the news is negative. Because of a decline in traditional pension plans, low accumulated savings, and longer life expectancy, however, we have many challenges and many women that will be retiring ill-prepared for retirement.

In terms of women and retirement security, there are many complex factors which lead to the continued retirement income gap. Since relatively few older women—27 percent, precisely—receive a pension income and have accumulated small personal savings, approximately $4,000 annually, social security plays a critical role in preventing older women from living in the poverty that we remember from the days of the Depression and before the advent of social security. Social security is in fact our country's most successful government program, and any changes to the program have the potential to dramatically impact women in our society.

Last year I held a series of town hall meetings to gather the views of people from throughout the State of Colorado on the long-term health of our social security system. Time and again in those meetings, seniors, and particularly women whose sole source of income is their monthly check from the Social Security Administration, raised concerns about the long-term solvency of the program and some of the initiatives that had been proposed to change the social security program here in Washington.

But we must remain committed to fulfilling the promise of social security. I believe there are steps we can take to ensure that all Americans are more prepared for retirement. I am eager to hear from the experts assembled here today. I am eager to work with the chairman, Senator Smith, and the ranking member, Senator Kohl, to address these issues on behalf of the women of our country and on behalf of our Nation.

Again, than you, chairman, and thank you, ranking member, for holding this hearing on this very important issue.

The CHAIRMAN. Thank you, Senator Salazar.

Our first witness is Jean Chatzky, and it is nice to see you on this side of a TV set. She is the editor-at-large for Money magazine and the financial editor for NBC's Today Show. We are honored that you are here. As an expert witness on financial planning, Ms. Chatzky will discuss investment strategies that help women increase their retirement savings.

Then we will hear from Cindy Hounsell, who is the executive director of the Women's Institute for a Secure Retirement. She will provide a broad overview of the women and retirement security issue, including a discussion of the factors behind the retirement income disparity.

Then Mrs. Barbara Kennelly. She is the president of the National Committee to Preserve Social Security and Medicare, and a former congresswoman from the State of Connecticut. She will discuss the importance of Social Security for women, and earnings from work as a fourth leg of the retirement income stool.

She will be followed by Dr. Jack VanDerhei. He is a fellow at the Employee Benefit Research Institute, and professor at Temple University in Philadelphia. His testimony will focus on trends related to employer retirement plans and Social Security.

We thank you all for coming, and Jean, we will start with you.

## STATEMENT OF JEAN CHATZKY, EDITOR–AT–LARGE, MONEY MAGAZINE, AND FINANCIAL EDITOR, THE TODAY SHOW, NBC

Ms. CHATZKY. Chairman Smith, Ranking Member Kohl, thank you so much for inviting me here to address your committee today. It is an honor and a privilege, in particular because you are discussing this morning the issue of financial security for women, and that carries a lot of importance to me both personally and professionally.

It is quite a problem that we are talking about this morning. According to the 2005 Retirement Confidence Survey conducted for the Employee Benefit Research Institute, only 40 percent of women have even tried to calculate the amount of money they will need to live in retirement.

Of those that have, most seem to be underestimating to quite a strong degree their true retirement needs. Nearly 40 percent believe that they will need less than $250,000 to live through retirement, a figure that works out to roughly $10,000 annually for the 20 to 25 year period that they expect to live during retirement.

Equally discouraging, just 59 percent of women are actively saving for retirement, which means that 41 percent are not, with only 36 percent contributing to a workplace retirement savings plan. All in all, it is not surprising that just 35 percent of women believe that they will have enough money to pay for their most basic expenses in retirement, and an even smaller percentage, just 23 percent, believe that they will have enough to live on comfortably during what are supposed to be their golden years. When you ask what percent of women believe they will have enough money to fund their health care and long term care needs, the percentages are even more discouraging.

I was asked here this morning not to simply outline this crisis—and I do believe it is a crisis—but to offer specific solutions that could help women in particular meet their retirement needs. What many people do not understand about women is that we possess innate qualities that make us spectacular investors of our own money once we step up to the plate.

Researchers from the University of California-Davis have looked at the discount brokerage records of thousands of investors and compared those of women to those of men, and found that women are far less likely than men to hold a losing investment too long. Women don't wait to sell winning investments, and men do. Men are much more likely to put all, or at least too many of their investment eggs in one basket, while women are more likely to diversify. Men trade securities so often, it is a drag on their investment returns. Women tend to buy and hold to their advantage.

When women do make investing mistakes, we learn from them. We are much less likely than men to repeat these sort of destructive behaviors more than once.

The upshot of all of these positive behaviors is that women make more money on their investments than men. The problem is that not enough of us are actually getting into this game, and once we do get into the game, because we leave the workforce so often to care for children or older parents, our stop-and-start retirement funds don't grow to be as large as they might.

A few simple changes to the way most retirement funds are implemented could change that dramatically. First, we need to change the defaults. Today, more than 20 years after the introduction of the 401(k), 30 percent of employees still choose not to sign up, and in doing so they leave $30 billion annually in employee matching dollars on the table.

Why are we making this mistake? Often it is because people do not understand the golden opportunity before them. That is why I believe that investing in 401(k)'s and other defined contribution plans should be opt-out rather than opt-in. In other words, employers should be able to assume participating is something that employees are going to do. This will, research shows, boost participation rates to 90 percent, and force those people who do not want to participate to actively consider their choice.

Second, defined contribution plan employee contributions should increase automatically as an employee's wage rises over the years. This is a fairly new mechanism that some companies have started to put in place. Typically, contributions start at 3 percent and rise at a rate of 1 percentage point a year. Today only about 25 percent of large companies have such large automatic escalation clauses. They should be mandatory.

Third, an age-appropriate portfolio should also be automatic. One of the problems women investors in particular face is a reluctance to take risks. Unfortunately, a lifetime of savings in low-risk, low-reward money market and bond funds will not provide enough retirement security for most American women. The default instead should be a target date retirement or life cycle fund that automatically adjusts the underlying investment mix based on a woman's self-selected retirement date.

Fourth, education needs to be part of the IRA rollover process. I applaud the recent change that made IRA rollovers the default for plan balances over $1,000. However, while rolling over is good, rolling over and continuing to contribute is far better.

Anyone rolling into an IRA should be educated on the opportunity that they have to continue to make retirement contributions into a traditional, Roth, or spousal IRA on an automatic basis. Making the continuation of contributions part of the exit interview process means that a woman leaving the workforce has one less cumbersome step to take. Anything that simplifies that process ensures greater participation.

These four changes will go a long way to ensuring the retirement of women who work for mid-size to large companies and other organizations that offer retirement plans. However, this still leaves self-employed women and women who are not in the traditional workforce in the lurch.

Here is what we know: Self-employment is of great appeal to women who want to be able to take care of their children, take care of their parents, and still earn a living. That flexibility is one key reason why women start businesses at twice the rate of men. We also know self-employed individuals are less likely to save for retirement.

Now, I am not very schooled in the way that the government operates, so please forgive me if these next suggestions are a bit naive or reaching, but I believe there must be some way for the government, just like a large company, to be able to offer these women a default option that ensures they are putting some of their own money away for retirement. Yes, there are incentives, but the incentives aren't working. I would suggest that the IRS and Social Security Administration both be asked to consider whether either could be the funnel that drives additional dollars into a place where they can be saved and they can be grown.

Thank you.

[The prepared statement of Ms. Chatzky follows:]

**Testimony of Jean Chatzky**

**Before the Special Committee on Aging**
**United States Senate**

**March 15, 2006**

Chairman Smith, Ranking Member Kohl, thank you so much for inviting me to address your committee here today. It is an honor and privilege, in particular because the problem you are discussing this morning - the financial security of America's women - carries such importance to me both professionally and personally. And it is quite a problem:

According to the 2005 Retirement Confidence Survey conducted for the Employee Benefit Research Institute:

- Only 40 percent of women have even tried to calculate the amount of money they will need to live in retirement.

- Of those that have, most seem to be vastly underestimating their true retirement needs. Nearly 40 percent believe they will need less than $250,000 to live through retirement – a figure that works out to roughly $10,000 annually for the 20 to 25 year period they expect to live in retirement.

- Equally discouraging, just 59 percent of women are actively saving for retirement, which means that 41 percent are not, with only 36 percent contributing to a workplace retirement savings plan.

- All in all, it is not surprising that just 35 percent of women believe they will have enough money to pay for their most basic expenses in retirement, and an even slimmer share - just 23 percent - believe they will have enough to live comfortably during what are supposed to be their golden years. When you ask what percent of women believe they'll have enough money to fund their healthcare and long-term care expenses, the percentages are even more discouraging.

I was asked here this morning not simply to outline this crisis - and I do believe it is a crisis - but to offer specific solutions that could help women, in particular, meet their retirement needs. What many people do not understand about women is we possess innate qualities that make us spectacular investors of our own money - once we step up to the plate. Researchers from the University of California Davis looked into the discount brokerage records of thousands of investors, comparing those of women to those of men and found:

- Women are far less likely than men to hold a losing investment too long.

- Women don't wait too long to sell winning investments. Men do.

- Men are much more likely to put all - or at least too many - of their investment eggs in one basket. Women are more likely to diversify.

- Men trade securities so often it's a drag on their investment returns, women buy and hold to their advantage.

- And when women do make investing mistakes - we learn from them. We are much less likely than men to repeat destructive behavior more than once.

The upshot of all of that positive behavior? Women make more money on their investments than men. Unfortunately not enough of us are in it. And once we are, because we leave the workforce so often to care for children or older parents, our stop-and-start retirement funds don't grow to be as large as they could. A few simple changes to the way most retirement funds are implemented could change that.

First, change the defaults. Today, more than 20 years after the introduction of the 401(k), 30 percent of employees still choose not to sign up. In doing so they leave $30 billion annually in employer matching dollars on the table. Why are they making this mistake? Often because they do not understand the golden opportunity before them. That is why I believe investing in 401(k)s and other defined contribution plans should be opt-out rather than opt-in. In other words employers should be able to assume this is something that employees are going to do. This will, research shows, boost participation to 90 percent and force those who do not want to participate to actively consider their choice.

Second, defined contribution plan contributions should increase automatically as an employee's wages rise over the years. This is a fairly new mechanism that some companies are putting in place. Contributions start at 3 percent and rise at a rate of 1 percentage point a year. Today only 25 percent of large companies have automatic escalation. It should be mandatory.

Third, an age-appropriate portfolio should also be automatic. One of the problems women investors, in particular face, is our reluctance to take risks. Unfortunately, a lifetime of savings in low risk/low reward money market and bond funds will not fund a secure retirement for most American women. The default should instead be a target-date retirement or lifecycle fund that automatically adjusts the underlying investment mix based on a woman's self-selected retirement date.

Fourth, education should be part of the IRA rollover process. I applaud the recent change that made IRA rollovers the default for plan balances over $1,000. However, while rolling over is good - rolling over and continuing to contribute is far better. Anyone rolling into an IRA should be educated on the opportunity they have to continue to make retirement contributions into a traditional, Roth or Spousal IRA on an automatic basis. Making the continuation of contributions part of the exit interview process means that a woman leaving the workforce has one less cumbersome step to take. Anything that simplifies the process insures greater participation.

These four changes will go a long way to insuring the retirement of the women who work for mid-size to large companies and other organizations that offer retirement plans. However, this still leaves self-employed women and women who are not in the traditional workforce (with two kids at home, I completely understand that stay-at-home moms work as hard if not harder than I do) in a lurch.

Here is what we know: Self-employment is of great appeal to women who want to be able to take care of their children, take care of their parents and still earn a living. That flexibility is one key reason why women start businesses at twice the rate of men. Self-employed individuals are less likely to save for retirement. Now, I am not schooled in the ways the government operates - so please forgive me if these next suggestions are naïve or reaching. But I believe there must be some way for the government - just like a large company - to be able to offer these women a default option that insures they are putting some of their own money away for retirement. Yes, there are incentives. But the incentives aren't doing it. I would suggest that the IRS and the Social Security Administration both be asked to consider whether either could be the funnel that drives additional dollars into a place where they can be saved - and grown.

Thank you.

The CHAIRMAN. Thank you very much.
Cindy Hounsell.

**STATEMENT OF CINDY HOUNSELL, PRESIDENT, WOMEN'S INSTITUTE FOR A SECURE RETIREMENT**

Ms. HOUNSELL. Chairman Smith, Senator Kohl, Senator Salazar, and Senator Carper, I very much appreciate the opportunity to be here today and thank you for holding this hearing.

My testimony will briefly cover the reasons women face economic insecurity in retirement, and a lot of those issues have been brought up by the Senators already. We will offer recommendations for actions that policymakers, employers, and individuals can take to provide access to employer-sponsored plans, long-term care, spousal benefits, and to reduce the risks of losing retirement income along the life course.

We believe this is also a crisis. The fundamental issues for women are that they work fewer years, earn less, live longer—we have heard the litany—and are likely to live alone in old age, which is highly correlated to poverty. While it is well-established that women tend to live longer, with living longer comes the very real prospect of living alone and needing care, and needing more income to obtain that care. Most older men will die married; most older women will die single. That is the story.

Women continue to serve as the primary family caregivers. They take care of children, parents, in-laws. A recent study shows that there are 13 years of zero earnings in the computation of social security benefits. Providing family care is still not recognized in this country as an economic contribution.

Women lose out, and it affects every aspect of their lives. Single women caring for elderly parents are likely to end up living in poverty. Married women are likely to end up impoverished after caring for a spouse. Divorce and widowhood is also a threat. Minority women, who work as the majority of the Nation's caregivers, have few benefits and will likely live out their lives in poverty.

There are two important fact that are well-known, but they bear mentioning today: Older women living alone are much more likely to be poor, and that fact has not changed for decades. But the big problem coming along, and the issue for baby boomer women, is that there is going to be a major expansion of that group likely to live in poverty.

The age 85 plus group is expected to double, and the numbers are daunting. At age 65 today there are about 6 million more women than men. Think of that tripling. At age 75 and older, 4 million more women than men. At age 85, nearly 2 million more women than men.

Now, everybody talks about the huge influx of women in the paid workforce and how it should be better in the future, but it is actually likely to be worse. At the same time that women were entering the workforce, the trend toward greater out-of-pocket payments for health care benefits and for retirement savings increased.

We have already talked about what women earn, and half of all women earn less than $31,000, but the figures on net worth tell the story. Married households had a median net worth of about

$136,000, while households headed by single women had a net worth of under $30,000.

We need to find a better way to educate people. Women, along with their male counterparts, tend to lack basic financial knowledge, and studies show that this is often the reason for not planning for retirement or for making serious financial mistakes. We hear from women all the time who thank us just for giving them the very basics so that they don't have a financial disaster.

One of the stories I always like to tell is about Stan Hinden, who is a Washington Post financial reporter who says that the biggest mistake that he made, and he didn't understand, was not choosing a survivor benefit for his spouse. If Stan Hinden didn't know how to figure this out, people really need help on these issues.

So women need the best information so that they do not make financial mistakes, and this information has to be targeted as spouses, as caregivers, and as employees. As policymakers, we need a vision to create new policies. As the distribution of wealth is so highly skewed, it is important for Congress to take the steps that will benefit a larger number of moderate-income workers.

Many of the incentives in the retirement system are not being utilized. The number of people who contribute the maximum to their 401(k)'s is barely 11 percent, and the number contributing to IRA's is even less.

Social security programs should retain the income support figures on which low and moderate-income Americans most rely. Social security could also be improved by providing credits for years devoted to caregiving; changing divorce benefits to make sense for and recognize more frequent divorce; change widow's benefits to make sense for two-earner families.

I won't repeat the suggestions, but I agree with the Saver's Tax Credit, all the things that Jean said in the opening statement, but we also need to encourage annuities not only generally but as an investment and distribution option, to make sure that people keep that money.

We also need to promote incentives for older workers to continue working, and improve the employment training programs. Most of all, we need to address the spiraling health care costs, including the cost of long-term care, by recognizing that there can be no retirement security in the absence of health reform.

Also, employers can make it easy and financially attractive for employees to get their benefits as an income guaranteed for life, and include a survivor option. It is important for women to know how to hold onto their assets, because they are much more likely to take a lump sum and spend it before retirement.

Women also need to make retirement planning a priority, and learn as much as they can about their benefits on the job and their spouse's benefits, educate themselves about longevity risk, as this is a serious issue. Every woman we hear from who ends up running out of money will say the same thing: I never thought I would live this long. We look in our neighborhoods and we see people, aunts, sisters, who are living way beyond their expectation. Women of all ages need your help, but the coming generations need it most.

Thank you very much.

[The prepared statement of Ms. Hounsell follows:]

**Testimony of**
**M. Cindy Hounsell**
**President, Women's Institute for a Secure Retirement**
**Before the Senate Special Committee on Aging**
**Hearing on Women's Retirement Income**
**March 15, 2006**

**Introduction**
Chairman Smith, Senator Kohl, distinguished members of the Committee, thank you for inviting me to discuss the issue of closing the retirement income gap for women in the United States.

My name is Cindy Hounsell. I am president of the Women's Institute for a Secure Retirement (WISER), a nonprofit organization dedicated to ensuring the security of women's retirement income through outreach, partnerships, and policy advocacy.

WISER commends the Committee for examining the unique challenges faced by women in preparing for and managing their retirement years. My testimony will briefly cover the reasons women face dramatic economic insecurity in retirement, and will offer recommendations for actions that individuals, employers and policymakers can take to make sure that women have access to employer-sponsored plans, access to spousal benefits and that the holes are plugged to mitigate the risks of losing retirement income along the life-course.

**A Coming Crisis**
As you are well aware, much attention has been paid to the retirement income insecurity of American workers generally. The issues faced by women in particular are compounded by a number of factors, the result of which paints a startling post-retirement picture for millions of women who have worked their entire lives in one capacity or another.

**The Reasons Women Face Retirement Income Insecurity**
The fundamental issues are these: women work fewer years, earn less, live longer and are likely to live alone in old age, which is highly correlated to poverty. Women must plan for a longer retirement with less income — the median income for women age 65 and older is only 57 percent of men in that age group. This should not come as a surprise — since the retirement system is based on what workers earn — so women are left with inadequate pensions and savings. The result is that women must rely too heavily on Social Security as an income source in retirement. Women, along with their male counterparts, tend also to lack basic financial knowledge, which is often the reason for making serious financial mistakes. Women need the best information available to ensure that they do not make financial mistakes; this information should be targeted to women as spouses and caregivers, as well as to women employees.

*Family Responsibilities Relate to Working Fewer Years*
Women continue to serve as their families' primary care givers for both children and older parents, and as a result, are more likely to work part-time in jobs without benefits or take time out of the workforce. The Social Security Administration finds that among new retired-worker beneficiaries, women average 13 years of zero earnings since age 22. This is on average 13 fewer

years to earn a pension if one is even available; 13 fewer years to climb the ladder toward better jobs and better pay; and 13 fewer years to put money away through a defined contribution plan or IRA. Every time a career is interrupted, the ladder toward better jobs and better pay must be re-established when a woman rejoins the labor force. She loses not only time but often must start over after taking time off.

*Other Economic Consequences of Family Caregiving*

Since caring for the family is not recognized in this country as an economic contribution, women lose out by bearing the main share of this responsibility. Research shows that the economic consequence for single women who care for their elderly parents is a likelihood of life in poverty: caregivers are 2.5 times more likely than non-caregivers to live in poverty.[1]

For married women, a divorce or widowhood is a also threat to economic security. In 2003, 12.2 percent of men and 15.9 percent of women in their early 60s were divorced. With this trend expected to continue, there is not just a decline in a woman's standard of living, but the likely loss of future retirement benefits. For example, under a defined benefit pension plan, a married woman has a legal claim on her husband's benefit. With traditional pensions on the wane, and defined contribution plans on the rise, this safeguard is stripped away: married women currently have no legal right to control how 401(k) plan benefits are paid.[2]

Married women who rely on their spouse's benefits must be educated about the requirements of their spouse's retirement plans. There are a large number of inconsistencies among plans that dramatically affect widows. Women can find themselves falling through the cracks at the worst possible time in their lives. It is time for Congress to introduce a separate bill and fix this once and for all. Some of these "fixes" have been introduced again and again since fellow panelist, the Honorable Barbara Kennelly, first introduced her retirement bills in the House of Representatives.

*Earning Power*

Women have joined the labor force in record numbers, have many more opportunities and work in many different fields, but there is still a substantial pay difference between men and women. Women are paid less than men in almost *every* occupational classification for which data are available. Data through 2004 show full-time working women in the aggregate earn 77 cents for every dollar earned by a man.[3] At the same time that women began to increase their workforce participation, there was a trend toward greater out-of-pocket payment for both health benefits and for retirement savings plans such as 401(k)s and 403(b)s.

The figures on net worth tell the story: in 2001, married households had a median net worth of about $136,000, while households headed by single women had a net worth of about $29,500.[4]

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1 Donato, Katharine and Wakabayashi, Chizuko: *Women Caregivers are More Likely to Face Poverty,* Sallyport, Magazine of Rice University Vol., 61 No.3. Spring 2005.

2 Munnell, Alicia and Steven A. Sass: *401(k) Plans and Women: A "Good News/Bad News" Story.* Just the Facts on Retirement Issues, Number 13. Center for Retirement Research at Boston College. January 2005.

3 US Census Bureau: Income, Poverty, and Health Insurance Coverage in the United States: 2004, p.5. August 2005.

4 Schmidt, Lucie and Purvi Sevak: *Gender, Marriage, and Asset Accumulation in the United States.* University of Michigan Retirement Research Center Working Paper WP 2005-109. December 2005.

Even when controlling for variables like position in the life cycle, education, inheritance and family earnings, the wealth gap remains.

*Employee Benefits*
Only 53 percent of women employees participate in an employer-sponsored pension plan.[5] Aside from lower earnings which means less access to plans, women are twice as likely to work part-time, and part-time workers are less likely to have retirement plans or they work at jobs that do not offer retirement plans. That said, if a woman does work for an employer with a tax deferred savings plan—such as a 401(k) or 403(b)—she is less likely than a man to contribute to it, largely because she earns less.

*Reliance on Social Security*
Social Security is the predominant source of retirement income for millions of older women. In fact, women make up 57 percent of adult beneficiaries.[6] For one in four older women, Social Security is the only source of income in their retirement. Without Social Security, the poverty rate for women would be significantly higher, increasing from about 12 percent to more than 50 percent.[7] The proportion of people aged 65 and older in poverty decreased from 35 percent in 1959 to 10 percent in 2003, the decline is mostly due to the support of Social Security. The most important thing that can be done for women is to strengthen the Social Security system to make sure that it continues to take women's lives into account and that it continues to meet the needs of low to moderate income workers.

*Minority Women*
Social Security is the only source of retirement income for 59 percent of single black women and 53 percent of single Hispanic women over age 65. The reasons why minority women fare poorly in retirement are lower earnings, employment patterns, caregiving responsibilities and marital status. WISER's report, *Minority Women and Retirement Income: Your Future Paycheck* documents the poverty rates: for single black women over age 65 it is 39.6 percent and for single Hispanic women it is 40.8 percent – twice the rate of white women. Any future reforms to the nation's retirement systems must consider the impact on low-income minority women.

*Longevity*
It is well established that women tend to live longer than men. The problem with living longer is that women's average income after the age of 65 is only about half that of men's. In fact, the median retirement income in 2004 for women was $12,080 compared to men's income of $21,102.[8]

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[5] Beedon, Laurel and Ke Bin Wu: *Women Age 65 and Older: Their Sources of Income.* AARP Public Policy Institute. October 2005.
[6] Institute for Women's Policy Research: *Six Key Facts on Women and Social Security.* IWPR Fact Sheet #D462. May 2005.
[7] AARP: *Women and Social Security: What You Should Know.* Source: www.aarp.org/states/wv/wv-news/a-2004-10-06-wv-wome.
[8] U.S. Census Bureau: Housing and Household Economic Statistics Division Revised January 13, 2006.

With living longer comes the very real prospect of living alone and needing care. In 2000, only 40 percent of older women were married, compared to 74 percent of older men. Older women living alone are much more likely to be poor. Another well known fact is that the age 85 + group is expected to double over the next three decades — the group most likely to be living in poverty. Again, it is no surprise that after age 70, nursing home entry causes married women to lose one third of their wealth while single women lose about 60 percent of their wealth.

The numbers are daunting and the need for a discussion of long-term care as part of the financial discussion of retirement is long overdue. Many of the individuals who live to these older ages, particularly those who live after age 80, will need long-term care. Often when one member of a couple requires long-term care in a nursing home, it is likely that the survivor will be impoverished.

The demographics of older Americans points to the importance of women's retirement security:

- At 65 and older, there are 6.2 million more women than men.
- At ages 75 and older, there are 4 million more women than men.
- At 85 and older, there are 1.8 million more women than men. This amounts to 71 percent of the 85 and older population.[9]

*Financial Knowledge*

There is ample evidence that Americans lack financial knowledge, and that low financial knowledge is correlated to investing in an overly conservative way. This results in lower rates of return over time, and reduces the amount of savings set aside for retirement.

Women and men both suffer the consequences of being overly conservative in financial decisions. A recent study shows that, when controlling for age, income and educational attainment, women and men appear to make similar financial decisions.[10] Therefore, financial education for all Americans — women and men alike — is an ever-growing need that requires more resources to address.

At WISER, we know first-hand the gaps in financial knowledge among women. One of WISER's key initiatives is the program funded by the Administration on Aging—the National Women's Resource Center and Program on Women's Education for Retirement, also known as the POWERCenter. The Center's primary goal is to educate the most women we can possibly reach with information that can assist in retirement planning, and provide average and low-income women with the opportunity to take the first step toward controlling their financial futures. We have directly reached more than 25,000 women through our workshops and outreach with our publications. WISER's strength is providing women with core financial knowledge that encourages them to make retirement planning a priority in their lives. Women need to learn about their health and retirement benefits at work or the implication of the lack of such benefits, the financial implications of providing care for children, parents and spouses and the risks of

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[9] He, Wan, Manisha Sengupta, Victoria A. Velkoff, and Kimberly A. DeBarros: U.S. Census Bureau, Current Population Reports, P23-209, *65+ in the United States: 2005*, U.S. Government Printing Office, Washington, DC, 2005.

[10] Papke, Leslie E: *Individual Financial Decisions in Retirement Savings Plans: The Role of Participant-Direction.* Journal of Public Economics, 88(1-2): 39-61.

longevity. Women are grateful for the information and sometimes just call and thank us for helping them avoid disaster. But this program needs to be replicated around the country and while at WISER we do what we can and work with many organizations, our funding is limited.

**What Policymakers Can Do**

As the distribution of wealth in the United States is so highly skewed — with a large percentage of total wealth held by a small percentage of the population, it is important for Congress to take steps that will benefit a larger number of moderate income workers. Many of the incentives in the retirement system are not being utilized by a majority of workers. In fact, the number of people who contribute the maximum to their 401(k) plans is barely 11 percent of all workers and the number who contribute to IRAs is even less.

It is important for policymakers to take several steps that will help women to access benefits and to mitigate the risks that prevent them from attaining greater retirement security.

*Social Security*

As the mainstay of support for women, the Social Security program has helped to protect many women from outright poverty in old age. Any future changes to the program should retain the income support features on which low and moderate income Americans rely most heavily. Social Security could be improved for women by:

- Providing credits for years devoted to care giving.
- Changing divorce benefits to make sense for two-earner families, individuals with time in and out of the labor force and to recognize earlier and more frequent divorce. The 10 year rule requirement should be changed to seven years.
- Changing widow benefits to make sense for a two-earner family.

*Employment-Based System*

Among improvements to the private employment-based retirement system, Congress should look to:

- Support and encourage the continued sponsorship of defined benefit pension plans or a more portable plan with the best features of the much maligned cash balance plans.
- Encourage annuities as an investment and distribution option in defined contribution plans and IRAs. This would address the need for basic spousal protections in 401(k) plans and rollover IRAs. While this is a complicated issue with a lot of contention among the players, annuities would provide the protection for spouses without regulating 401(k)s in a way that employers would find objectionable.
- Encourage automatic enrollment and other pro-saving defaults in 401(k)-type defined contribution plans, with appropriate backstops to ensure that employers continue to have an incentive to increase participation by non-highly compensated workers.
- Analyze the coverage rules to identify possible opportunities to increase women's coverage.
- Expand, extend and simplify the Saver's Tax Credit to provide a financial incentive for moderate and lower income workers to save for retirement.
- Make sure that asset limits in means-tested programs do not penalize lower income workers who save for retirement.

- Promote incentives for older workers to continue working and improve employment training and retraining programs to better serve older workers
- Àddress spiraling health care costs, including the cost of long-term care, recognizing that there can be simply no retirement security in the absence of health reforms.

*Financial Education*
In addition, policymakers can encourage better understanding of financial issues among all Americans. Policymakers should encourage employers and others to educate workers about retirement planning and saving and highlight the specific issues of importance to women.

**Proposed Solutions: What Employers Can Do**
Employers can take several steps to help provide women with greater retirement security.

*Social Security*
Employers should support Social Security as an important means of filling the retirement income picture for their employees. Employers should support several specific changes that will retain Social Security's role as a critical income support system. I will outline these proposals shortly.

*Retirement Benefits*
Employers are important partners in the provision of retirement security. Employers should:

- Offer retirement programs appropriate to their industry and competitive environment. The best programs offer something for all eligible employees regardless of individual action.
- Tailor programs to work well even for those employees who do not plan well, and consider plan provisions such as auto-enrollment, balanced investment defaults and income as the automatic form of payout at retirement.
- Make it easy and financially attractive for employees to get their benefits as an income guaranteed for life, including a survivor option.
- Create options both for working longer and phasing into retirement. Working longer enables the accumulation of better benefits for retirement.
- Provide access to health benefits, at least to Medicare eligibility.

*Financial Education*
In addition, employers can be partners in the financial education process. Employers and policy-makers have an interest in education on the same issues. The critical information that should be targeted particularly to address women's issues includes:

- The importance of life decisions related to retirement benefits, such as when taking and leaving jobs, marrying and getting divorced.
- The need to hold onto retirement assets between jobs. Women are more likely to spend their lump-sum retirement distributions between jobs, because they have smaller balances in their accounts.
- Planning for contingencies such as widowhood and divorce.
- The effects of various types of insurance on retirement planning, such as long term care policies.

**What Women Can Do: Five Important Steps Women Can Take:**

- Make retirement planning a priority.
- Learn as much as they can about their benefits on the job and their spouses benefits.
- Educate themselves about their longevity risks as this is a serious issue.
- Estimate their needs and consider the impact of inflation.
- If possible, women need to save more and work longer.

**If We Don't Act**

If we look at various studies, it is clear that we will have a huge burden as a society. Some indicate that 75 percent of the baby boomers are not prepared for retirement; the average amount in 401(k)s for the group closest to retirement ages 55-64 is anywhere from $21,000 to $110,000 depending on the study. According to the most recent Federal Reserve Board study, the typical household account balance is $83,000, while the Survey of Consumer Finances reports a median of $60,000. These numbers are dramatic, because this is the group closest to retirement age.

Yet the solution we hear about most in the popular press is that boomers will continue to work. While this may sound like a good idea, circumstances may prevent work for some obvious reasons — no access to a job or bad health, or in the case of many women, providing care for a spouse, mother or a mother-in-law. These circumstances, sometimes referred to as negative shocks, may cause significant financial consequences.

A recent study by the Urban Institute illustrates a way to measure the financial impact of negative shocks. The paper reviews two 10-year periods for those aged 51-61 and for those aged 70 and older.[11] What's surprising is that 3/4ths of adults in the earlier group aged 51-61 experience one of these negative shocks:

- Three percent experience divorce.
- Ten percent experience widowhood.
- Forty–one percent experience major new medical conditions.
- Thirty-three percent experience health related work limitations.
- Nearly twenty percent experience job layoffs.

These events often threaten financial security at older ages, but it is especially problematic when they strike adults who may not have completed their retirement preparations.

**Concluding Remarks**

Despite the legal, social and economic gains made by American women in recent decades, economic insecurity remains a critical issue.

Women's work patterns and caregiving responsibilities will continue to place them at a significant disadvantage in our nation's retirement system. Moreover, the outcome of the current

[11] Johnson, Richard W., Gordon B.T. Mermin, Cori E. Ucello: *When the Nest Egg Cracks: Financial Consequences of Health Problems, Marital Status Changes, and Job Layoffs at Older Ages.* Urban Institute. January 2006.

national debate about the future of Social Security and Medicare could have major implications for women's retirement security.

Women of all ages need your help, but the coming generations need it most. Our society is not prepared for the millions of women who will need long-term themselves after providing it for others. Your leadership on these issues is not just welcomed, but crucial if we as a nation are to alter the otherwise startling outlook faced by millions of women in this country. Thank you for your time and consideration. I am pleased to respond to any questions Committee members have at this time.

The CHAIRMAN. Thank you, Cindy.
Barbara Kennelly.

**STATEMENT OF BARBARA B. KENNELLY, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY AND MEDICARE**

Ms. KENNELLY. Thank you, Mr. Chairman. Thank you for having me here, Ranking Member Kohl and Senator Salazar and my dear friend Senator Carper. I am honored to be here this morning.

The National Committee to Preserve Social Security and Medicare is a grassroots organization of 4.6 million members and supporters. Our mission is to advocate for issues that affect the quality of life for American retirees. I have outlined the critical role that social security plays in our retirement, especially for women, in my written testimony. This morning I would like to focus on seniors and employment.

As you know, we hear it constantly, we stand on the eve of the baby boomer retirements. According to the Census Bureau, almost 8,000 people a day will turn age 60 just through 2006. As we live longer and healthier lives, many workers expect to continue working well into their retirement years.

Surveys, including one just released by AARP, show that more than two-thirds of today's older workers and 80 percent of baby boomers plan to work in retirement, yet a report released by the Census Bureau just last week shows that the reality is quite different. While nearly half of all men over age 65 were working in the 1950's, that number has dropped to one in five in 2003. Only 10 percent of women have kept working after 65, and that has been consistent over the last two decades.

Nationwide, over 40 percent of the United States workforce will be eligible to retire over the next 5 years, and over one-half of employers believe this will lead to a workforce shortage, yet only 14 percent of employers have any kind of formal program to retrain or attract older workers. Although employers understand the value of a stable and experienced workforce, the cost of employing older workers is a pervasive concern. Not only do they have higher salaries because of their long service with the employer, but the cost of their health care and pension benefits is also higher than that of younger workers.

On the employee side, assuming the worker is healthy and financially secure enough to have a choice, the top three priorities for older workers are health care coverage, continued participation in the retirement system, and the ability to strike a balance between work and home. As you can see, some of the same items employers find most burdensome are the employees' highest priorities. Unless this conflict is resolved, I believe the clash between older workers' expectations and reality will continue.

That is why I find the proposals such as Senator Kohl's Older Worker Opportunity Act extremely helpful. The centerpiece of his bill acknowledges the desire of older workers to have a better balance between work and home by providing a tax benefit for employers who allow them to work part time, and he addresses the concerns of both parties by helping subsidize the cost of allowing these older workers to continue receiving health care benefits and partici-

pate in company pension plans. By addressing the concerns of both parties to the employment equation, I believe this bill could help pave the way for significant increases in older worker employment.

Another provision in the bill which I know you have worked on, Mr. Chairman, is the creation of an interagency task force to review impediments to keeping older workers employed. This provision is a critical first step toward identifying the legal and administrative road blocks to senior employment. It is the pension bill currently in conference, and I certainly hope that it is retained.

Mr. Chairman, as our society ages, the need to keep older workers employed will become a much higher priority for both workers and employees. Unless we can significantly increase the resources women have when they retire, they need to continue to keep working or we can reach a crisis.

Now is the time to explore the impediments for senior employment and begin removing them. This hearing is, in and of itself, an important step in highlighting the problem, and I believe the bills such as the Older Worker Opportunity Act are good first steps toward achieving that goal.

I was in Congress from 1982 to 1998, and we looked at many of these issues starting back then. But, as you know, in 1983 we also were faced with a crisis in Social Security which we solved for decades. As a result of that effort, it is the only program that has a surplus right now. The challenges of an aging society are not new. Some of these things, Senator Kohl and Senator Smith, that you are talking about, I worked on years ago.

We did raise the retirement age as part of our solution. I have a daughter that was born in 1960. She won't get her social security until age 67. But we cannot continue to raise the retirement age indefinitely. What we need to do is address the fact, and I am Exhibit A, that older women can continue to work, but we have to make sure that the laws provide protection and the ability to keep working.

[The prepared statement of Ms. Kennelly follows:]

**National Committee to Preserve Social Security and Medicare**

Senate Special Committee on Aging
Bridging the Gender Gap: Eliminating Retirement Income Disparity for Women
Testimony of Barbara Kennelly, President
National Committee to Preserve Social Security and Medicare
March 15, 2006

Barbara B. Kennelly
President &
Chief Executive Officer

Mr. Chairman and Ranking Member Kohl:

Thank you so much for inviting me to speak to you on the important issue of women's financial security in retirement. I greatly appreciate this opportunity.

The National Committee to Preserve Social Security and Medicare is a grassroots advocacy organization representing 4.6 million members and supporters. As our name indicates, our primary mission is the preservation of Social Security and Medicare, because these programs are the lynchpin of senior's retirement security. But we also care a great deal about other issues that affect the quality of life of America's retirees.

The question of women's retirement security is, of course, a critical one as our nation looks to the future. The main reason is that we women live *forever*. We also tend to reach retirement age with fewer resources than men. That means we have less money that must be stretched out over a longer period of time.

As you know, retirement used to be thought of as a three-legged stool, with Social Security, employer-sponsored pensions, and personal savings making up relatively equal legs. Over time, however, it's become increasingly clear that the three-legged stool has become more like a bar stool, with Social Security forming the central pillar upon which retirement rests. This problem is not unique to women – men are also relying increasingly on Social Security in retirement. But the problem is particularly acute for women because of the combination of longer life expectancies and fewer resources.

Because other witnesses will discuss pensions and personal savings, I will concentrate on what is increasingly becoming the central pillar of retirement – Social Security.

According to the Social Security Administration, women reaching age 65 in 2004 are expected to live, on average, an additional 20 years compared with 17 years for men. Women represent 58% of all Social Security beneficiaries age 62 and older, and approximately 70% of all beneficiaries age 85 and older.

For all the reasons your other panelists have mentioned, women are much more heavily reliant on Social Security than men are. Social Security is the only source of retirement income for 29% of unmarried elderly women. Those women who have other income are still highly dependent on Social Security. For unmarried women over age 65, Social Security comprises 52% of their total income, compared with 38% for unmarried elderly men, and 35% for elderly couples. Were it not for Social Security, more than two-thirds of elderly women would live in poverty.

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Social Security has two protections that are particularly important to women. First, the benefit lasts as long as we live, so there's no risk of outliving our assets. Second, the program's Cost of Living Adjustment helps protect against the ravages of inflation. This is a feature that does not exist in most other sources of retirement income, and it is particularly critical for women because of their longevity.

While we disagreed with the President on his proposal to divert payroll taxes into private accounts, we absolutely agree on the need to strengthen the program's long-term solvency, particularly as we stand on the eve of baby boomer retirements. According to projections by the Census Bureau, over 7,900 people a day – or 330 an hour – will turn age 60 during 2006 alone. It is absolutely crucial that our nation be prepared for this wave of seniors.

One issue that often comes up during discussions of Social Security's solvency is the question of raising the retirement age. As you know, it is currently 67 for those born in 1960 or later. Raising the retirement age is perceived to address two key problems – the solvency of retiree programs such as Social Security and our economy's need for a sufficiently large workforce. Yet there is a significant disconnect between older worker's expectations and reality where staying in the workforce is concerned. Surveys, including one done recently by AARP, show that more than two-thirds of today's older workers, and 80% of baby boomers, plan to work in retirement. But the reality is that over half of Social Security beneficiaries retire at age 62 and almost 80% are retired by age 65.

The reasons for this are varied. In many cases, workers who expected to keep working into retirement find that their health deteriorates to the point where they cannot continue. In other cases, they lose long-held jobs through no fault of their own and then have difficulty finding other employment. According to a recent study by the Congressional Research Service, only 60% of men and 55% of women who lost their jobs at 55 years of age were employed two years later. Finally, there are those whose employers offer incentives for early retirement, and when the employees take the offer they often find it difficult to re-enter the workforce.

When employers are surveyed, they seem to acknowledge the problem, but have done very little to address it. Nationwide, over 40% of the U.S. workforce is estimated to be eligible to retire over the next 5 years, and over one-half of employers believe this will lead to a workforce shortage. Yet recent surveys show only 14% of employers have any kind of formal program to retain or attract older workers.

My point is that keeping older workers employed is not as simple as raising the retirement age. Much work must be done to educate employers on the value of an older workforce. And incentives must be provided to help alleviate the costs of retaining longer tenured workers. On the employee side, we must identify and remove the disincentives to continued work that exist today.

While some studies show that the cost difference between employing workers aged 50 and older and younger workers is only 1% to 3%, the cost of employing older workers is a pervasive theme in employer surveys. Not only are older workers likely to have higher salaries because of their long service with the employer, but the cost of their healthcare and pension benefits is also higher than that of younger workers. While the turnover costs of replacing any experienced worker can reach 50% of the worker's salary, this expense can seem small when compared to the higher overall compensation cost. These concerns clearly must be addressed if we expect employers to accommodate the needs of older workers.

On the employee side, according to a recent survey by Towers Perrin, the top three factors identified by workers aged 50 or older as keys to their decision to continue working for a company are the availability of a

competitive healthcare package, the ability to continue participating in the retirement plan, and the ability to rike a balance between work and home.

Yet, according to the Bureau of Labor Statistics, only 11 percent of workers participate in a formal flexible work program, only 27 percent of part-time workers have access to retirement benefits, and only 22 percent of part-time workers have access to health benefits. The disconnect between the needs and expectations of older workers and their employers cannot be more obvious.

That is why I find proposals such as Senator Kohl's Older Worker Opportunity Act a tremendous step in the right direction. His bill focuses on the issues that are key to both employers and older workers, in an effort to address the concerns of both partners in the employment equation. His bill acknowledges the desire of older workers to have a better balance between work and their home life by encouraging employers to offer part-time work. And he addresses the concerns expressed by both workers and their employers by helping subsidize the cost of allowing these part-time older workers to continue receiving health benefits and to continue participating in company pension plans.

The key mechanism for accomplishing these goals in S.1826 is through the tax code. By providing a tax benefit for companies who employ older workers while allowing them to work part time, keep their health care coverage and participate in the company retirement plan, I believe this legislation could go a long way toward paving the way for significant increases in older worker employment.

Mr. Chairman, as our society ages, the need to keep older workers employed will become a much higher priority for both workers and employers. Now is the time to explore the impediments for senior employment nd begin removing them. This hearing in and of itself is an important step in highlighting the problem, and ı believe bills such as the Older Worker Opportunity Act are good first steps toward that goal.

Thank you again for inviting me to join you this morning.

The CHAIRMAN. Thank you so much. That was excellent.
Jack VanDerhei.

**STATEMENT OF JACK VanDERHEI, RESEARCH DIRECTOR, EMPLOYEE BENEFIT RESEARCH INSTITUTE FELLOWS PROGRAM**

Mr. VANDERHEI. Mr. Chairman, Ranking Member Kohl, members of the committee, thank you for inviting me to testify today. I have been asked to discuss gender disparity with respect to employer retirement plans and social security.

Most of the points that I had made in my written testimony with respect to those who have already retired, have already been made by previous comments by the Senators this morning. So if you don't mind, I will just skip ahead to gender disparities in retirement program participation among current workers.

Although there is certainly a substantial amount of gender disparity among those already age 65 with respect to those receiving pension income, as has been mentioned earlier, it appears that this disparity will decrease sharply and for some worker types actually reverse. For example, in 1987, 40.7 percent of female wage and salary workers ages 21 to 64 participated in an employment-based retirement plan, compared with 51 percent by males, but by 2004 that gap had decreased from 10.3 percentage points down to only 3.7 percentage points.

But if you look at where most of the retirement income is probably going to come from in the future, 401(k) plans, there are still many gender disparities. For example, there is a higher participation rate among those that are eligible. Males tend to participate 5.2 percentage points more than females. When they do contribute, they contribute a larger percentage of their compensation, .4 percent of compensation more for males than females, but by and large these differences are explained by income disparities among the genders.

While all the previous material documented all these different component parts of the accumulation process while you are still working, working toward retirement income, I would submit that the real question from a public policy perspective should be whether both current and future retirees will be able to afford an adequate standard of living in retirement, which reflects many of the previous comments.

EBRI's unique analysis models what percentage of retirees will have sufficient retirement income wealth to pay for a basket of non-luxury goods. We are not talking about replacing a particular portion of your pre-retirement income. We are talking about expenses that the elderly incur from a basic need or want of daily life, in addition to those that are exclusively health-related events, such as admission to a nursing care home, that are going to occur occasionally if ever for many retirees.

So if I could turn your attention to Figure 8 on the chart, you will see a large number of percentages for various birth cohorts.

The CHAIRMAN. I'm sorry. What is Figure 8?

Mr. VANDERHEI. Figure 8, are you able to see? Figure 8 is referring to the overall percentages of compensation that individuals are going to need to save while they are working, to be able to afford

adequate retirement income for basic expenses in retirement, plus potential health care expenses, 75 percent of the time.

The point that we are trying to make here is that these are percentages of compensation that individuals would need to save every year from now until the time they actually retire. Even more importantly, this is compensation they would need to save in addition to what they are already putting away in 401(k) plans, to what employers are already putting away on their behalf in 401(k), if they have defined benefit, and the social security income under status quo.

There are four very important points to take away from this analysis. First, the median individuals in these graphs that are on the verge of retirement, so people who are on the left-hand side of that graph, have little chance of saving a sufficient amount of money to achieve this definition of retirement security unless they are very high- income, unless they are in the highest 25 percent.

But, second, the results improve substantially for most groups as you move to the right of the chart, to the younger birth cohorts, because obviously the longer you are able to accumulate these monies, the more you are going to have for retirement.

Third, for each age group, the higher income individuals need to save a significantly lower percentage of their income for retirement security. Again, this is because we are dealing with retirement security, not simply a specific replacement ratio target.

But probably most importantly for today's hearing, for every age/income quartile that is displayed in those graphs, single females would have to contribute significantly more than single males to achieve the same level of retirement security. Oftentimes that is going to be due to such things as already mentioned: increasing longevity for females, and the fact that overall they tend to earn less than males during their working careers.

Now, if that is not depressing enough, Figure 9, which is the same type of analysis, but instead of focusing on just having enough retirement income such that three chances out of four, you will have enough income during your retirement, this increases it up to 9 chances out of 10. As you will see, all the various contribution rates that would be required for the individuals are going to increase.

In conclusion, I would just like to turn to the last figure, which is highlighting analysis which we just completed last week for EBRI to try and deal with the whole concept of pension freezes. As I am sure you are aware, many large corporations within the last few months have terminated their defined benefit plans and substituted in their place 401(k) plans.

What we have done at EBRI is go back and simulate, for all defined benefit participants currently holding these plans, what would need to be contributed on an annual basis as a percentage of their compensation to actually financially indemnify them for the pensions that they would otherwise have received.

We have broken it down by two different types of plans that you may be familiar with, career average plans and final average plans. Final average plans tend to look at only the last few years of compensation you have with an employer; career average is spread over the entire time that you are with the employer. We have done

two different types of rates of return. On the left-hand side you have 4 percent; on the right-hand side you have 8 percent.

The point being, there are substantial amounts of additional compensation that would need to be contributed, whether from the employer, whether from a combination of employer and employee, to indemnify them for the benefits that they are no longer going to be accruing under the defined benefit plans. The one good news, though, is that because females do have a tendency to have lower tenure with an employer, they do tend to lose less as a result of these pension freezes. In fact, in every one of the cases we have simulated, at least the amounts that they are going to have to contribute will be slightly less.

So I appreciate the opportunity to share this information with the committee, and look forward to assisting you in your important role with additional research in the future.

[The prepared statement of Mr. VanDerhei follows:]

T-145

**Written Statement**

**for the**

**U.S. Senate Special Committee on Aging**

**Hearing on**

**Bridging the Gender Gap: Eliminating Retirement Income Disparity for Women**

**March 15, 2006**

EBRI
EMPLOYEE
BENEFIT
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**"Gender Disparities in Retirement Security"**

By
Jack VanDerhei
Temple University
and
Research Director of the Employee Benefit Research Institute Fellows Program

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# Introduction

Although the Social Security retirement benefit program was put in place more than seven decades ago and the Employee Retirement Income Security Act (ERISA) was enacted more than three decades ago, it appears there will still be substantial numbers of future retirees who will struggle with retirement security. One recent study by the Employee Benefit Research Institute (EBRI)[1] found that American retirees will have at least $45 billion less in retirement income in 2030 than what they will need to cover basic expenditures and any expense associated with an episode of care in a nursing home or from a home health care provider. The aggregate deficit in retiree income during the decade ending 2030 will be at least $400 billion.

While these numbers are troubling in aggregate, drilling down to see what the potential consequences of today's programs might be for certain segments of the retiree population in the future, especially single females, shows that achieving retirement security on a nearly universal basis will be a particularly daunting challenge.

This testimony begins by summarizing the sources of current retiree income, including Social Security and employment-based retirement plans, and then reviewing the current literature with respect to gender disparities in the percentage of workers with an employment-based retirement plan, the participation rates of those eligible to participate in a plan, and the contribution levels for those who have a plan allowing a contribution. The impact of the continuing evolution from defined benefit (pension) to defined contribution (401(k)-type) plans among private plan sponsors on future retirees' sources of income is demonstrated. This evolution transfers longevity risk to future retirees— and may have a disproportionate impact on women.

The last section of the testimony ties all of this together by showing the results of a simulation model that projects whether individuals will have sufficient money in retirement to pay for basic expenses plus the potential costs of long-term health care costs not typically covered by health insurance. The additional amounts needed to be saved to provide a specified level of retirement security are generated to show the values needed by birth cohorts, income quartiles, and gender.

# Overview of Gender Disparities in Current Retiree Income Sources

### *Social Security*

Based on numbers published by the Social Security Administration,[2] at the end of 2003, women's average monthly Social Security retirement benefit was $798, compared with $1,039 for their male counterparts. Given the gender-neutral calculation of retirement benefits[3] under Social Security, this disparity is largely due to the differences in average earnings prior to retirement[4] and the number of years the individual worked prior to receiving benefits. However, the current calculation method used for most workers provides that the full disparity between earnings and number of years worked prior to retirement is mitigated to a certain extent:

- The value of the worker's career earnings used to calculate the monthly benefits for most workers ignores any earnings greater than the maximum taxable wage base in that year. For example, in 2006 any earnings greater than $94,200 would be not be subject to Social Security payroll tax and thus would not be used in calculating the Social Security benefits for the individual.
- The value of the worker's career earnings used to calculate the monthly benefits for most workers only uses the 35 highest indexed values. This may be useful to mitigating the gender gap that otherwise would exist in two ways. First, the amount of earnings (below the maximum taxable wage base) is indexed for the increase in average national wages between the time of the earnings and the time the individual reaches age 60. As a result, if a worker leaves the work force early (perhaps to take care of children or an aged parent), the previous earnings will not be artificially lowered due to overall wage growth in the country. Secondly, the calculation process typically allows several years of low (or zero) wage years to be

ignored. For example, an individual entering the work force at age 21 and retiring at 65 could have left the work force for as many as nine full years without being penalized with respect to this calculation.

- The formula used to convert the workers' average indexed earnings to a monthly retirement benefit is heavily skewed toward lower-income workers. For example, if 2006 is the year in which the worker is first eligible for benefits, his or her initial monthly benefit at normal retirement age would be equal to the sum of:
  - 90 percent of the first $656 of average indexed monthly earnings, plus
  - 32 percent of the next $3,299 of average indexed monthly earnings, plus
  - 15 percent of any average indexed monthly earnings in excess of $3,955.
- In addition to retirement benefits based directly on one's own working history, an additional benefit may be available equal to 50 percent of the spouse's benefit less the benefit the worker would have been entitled to based on his or her own earnings.

Social Security plays a much larger role in total income for unmarried women over age 62 than for their male counterparts. Based on EBRI estimates from the March 2005 Current Population Survey (CPS), Social Security represents an average of 65.5 percent of total income for unmarried females over age 62 but only 56.1 percent for unmarried males over age 62. As seen in Figure 1, this is largely a function of income—when results are reported by income quartile, these differences decrease significantly. For individuals in the first (lowest) income quartile (total income of $9,199 or less), Social Security represents an average of 79 percent of total income for women versus 75 percent for men. This number decreases significantly for both genders in the fourth (highest) quartile (total income of $61,398 or more): Social Security represents an average of 26.8 percent of total income for males and 27.6 percent for females.

### *Private Pensions*

Based on EBRI estimates from the March 2005 CPS, 34.6 percent of those age 65 or older had pension income in 2004.[5] The mean amount was $13,951 and the median was $9,600. Among males 44.7 percent had pension income, as opposed to 27.0 percent for females. The mean amount for males was $17,175 while females averaged only $10,035. There was an even larger disparity in the median amounts: $12,012 for males and $6,600 for females.

## Gender Disparities in Retirement Program Participation Among Current Workers

Although there is a substantial amount of gender disparity among those already age 65 with respect to receiving pension income, it appears this disparity will decrease sharply and for some worker types will actually reverse. As a case in point, Copeland[6] analyzes 2004 employment-based participation levels from the March 2005 CPS and finds that among the 152.7 million Americans who worked in 2004, 81.2 million worked for an employer or union that sponsored a pension or retirement plan, and 63.9 million participated in the plan. This translates into a sponsorship rate (the percentage of workers working for an employer or union that sponsored a plan) of 53.2 percent (52.3 percent for males and 54.2 percent for females) and a participation level (fraction of the workforce who participates in a plan regardless of eligibility) of 41.9 percent (42.5 percent for males and 41.2 percent for females). However, this measure of the work force contains the unincorporated self-employed and those typically with a looser connection to the work force—individuals under age 21 and older than age 64. Therefore, a different measure of the work force is examined: wage and salary workers ages 21–64, representing individuals who have a stronger connection to the work force and work for someone else. For this group, the sponsorship rate increases to 59.5 percent (59.0 percent for males and 60.1 percent for females) and

the portion participating increases to 48.3 percent (49.4 percent for males and 47.2 percent for females). When separating these wage and salary workers into the public and private sectors, the percentages participating differ significantly. Slightly less than 76 percent (79.9 percent for males and 72.8 percent for females) of the public-sector workers participated in an employment-based retirement plan, compared with 43.0 percent (44.7 percent for males and 41.0 percent for females) of the private-sector workers.

A more restrictive definition of the work force, which more closely resembles the types of workers who generally must be covered by ERISA for a retirement plan offered by a private-sector employer or union, is the work force of full-time, full-year wage and salary workers ages 21–64. Approximately 57 percent (55.4 percent for males and 58.2 percent for females) of these workers participated in a retirement plan.

These gaps were significantly larger in the late 1980s. For example, in 1987, 40.7 percent of female wage and salary workers ages 21-64 participated in an employment-based retirement plan compared with 51.0 percent for males. The gap decreased from just over 10 percentage points to under 4 percentage points. Furthermore, while all female wage and salary workers ages 21–64 were found to participate in a retirement plan at a lower level than males did, the percentage of full-time, full-year female workers who participated in a plan was higher than for males. In fact, across all of the worker status categories, females were more likely to participate in a retirement plan than males (Figure 2). Furthermore, when examining the participation by earnings level, the proportion of females participating in a plan was also higher than it was for males (Figure3). Consequently, it appears that females' lower probability of participation in the aggregate was a result of female workers' overall lower earnings and/or lower rates of full-time work in comparison with males (Figure 4).

Figure 5 shows the average employee contribution rate to salary reduction plans for nonagricultural wage and salary workers age 16 and over. On average, males contributed approximately 0.3 percentage points of compensation more than females in 1993. This difference decreased to approximately 0.1 percentage points of compensation in 1998 before increasing to 0.4 percentage points in 2003. It appears much of this differential is due to the propensity of those with larger incomes to contribute a larger percentage of compensation.

In a similar fashion, Copeland[7] shows the participation rate for salary reduction plans among those eligible is higher for males (84.3 percent) than females (79.1 percent). Again, these differences can be explained in large part by the gender income disparities.

## Increasing Importance of Individual Account Plans for Future Retirement Income Security

The increasing importance of this shift from defined benefit to defined contribution retirement plans can be seen in Figures 6 and 7. Figure 6 provides the composition of estimated retirement wealth for males at Social Security normal retirement age, by birth cohort. Similar figures for females are provided in Figure 7. It is readily apparent from these graphs that both genders have an appreciable drop in the percentage of private retirement income that is attributable to defined benefit plans (other than cash balance). Females start with a slightly higher defined benefit concentration than men (49.7 percent vs. 39.0 percent for the 1936 cohort), and the difference remains fairly constant over time (37.2 percent vs. 26.4 percent for the 1964 cohort).

These results show a clear increase in the income retirees will receive that will have to be managed by the retiree. This makes the risk of longevity more central to retirees' expenditure decisions. Therefore, they will have to understand that life expectancies are merely averages, and that wide variation beyond the average is possible. Moreover, as the percentage of overall retirement income derived from defined benefit plans decreases, females desiring longevity insurance in the form of an annuity will face the disadvantage of having to purchase products priced using gender-distinct mortality tables instead of the implicit gender-neutral nature of the defined benefit annuity structure. Given the longer life

expectancies for females at retirement age, this can amount to an appreciable decrease in retirement income. [8]

## Retirement Income Adequacy

While the previous material documented the component parts of the accumulation process, the real question from a public policy perspective may be whether current and future retirees will be able to afford an adequate standard of living in retirement. Significant work has been done by EBRI and others to evaluate how much workers will need in order to have the same after-tax and after-savings amount for consumption in retirement that they enjoyed prior to retirement.[9] Although this may be desirable from the standpoint of financial planning, it sets a goal that may be unrealistically high for many segments of the population. Another standard is used in this analysis to assess the current state of the retirement system.

Instead of attempting to determine what percentage of the population will be able to attain a specified replacement ratio,[10] this analysis attempts to model what percentage of retirees will have sufficient retirement wealth to pay for a basket of non-luxury goods in retirement for the remainder of their simulated life-paths.[11] The expenditures used in the model for the elderly consist of two components—deterministic (unchanging) and stochastic (variable) expense assumptions. The deterministic expenses include those expenses that the elderly incur from a basic need or want of daily life, while the stochastic expenses in this model are exclusively health-event related—e.g., an admission to a nursing home or the commencement of an episode of home health care—that occur only for a portion, if ever, during retirement, not on an annual basis.

### *Deterministic Retirement Expense Assumptions*

The deterministic expenses are broken down into seven categories—food, apparel and services (dry cleaning, haircuts), transportation, entertainment, reading and education, housing, and basic health expenditures. Each of these expenses is estimated for the elderly (age 65 or older) by family size (single or couple) and family income (less than $15,000, $15,000 to $29,999, and $30,000, or more in 2002 dollars) of the family/individual.

The estimates are derived from the 2000 Consumer Expenditure Survey (CES) conducted by the Bureau of Labor Statistics of the U.S. Department of Labor. The survey targets the total noninstitutionalized population (urban and rural) of the United States and is the basic source of data for revising the items and weights in the market basket of consumer purchases to be priced for the Consumer Price Index. CES data provide detailed data on expenditures and income of consumers, as well as the demographic characteristics of those consumers. The survey does not provide state estimates, but it does provide regional estimates. Thus, the estimates are broken down into four regions—Northeast, Midwest, South, and West—to account for the differences in the cost of living across various parts of the country.[12] Consequently, an expense value is calculated using actual experience of the elderly for each region, family size, and income level by averaging the observed expenses for the elderly within each category meeting the above criteria. The housing expenses are further broken down by whether the elderly own or rent their home. The basic health expenditure category has additional data needs beyond the CES.[13]

The total deterministic expenses for elderly individual or family are then the sum of the value in all the expense categories for family size, family income level, and region of the individual or family. These expenses make up the basic annual (recurring) expenses for the individual or family. However, if the individual or family meet the income and asset tests for Medicaid, Medicaid is assumed to cover the basic health care expenses (both parts), not those of the individual or family. Furthermore, Part B premium relief for the low-income elderly (not qualifying for Medicaid) is also incorporated.

### *Stochastic Retirement Expenditures*

The second component of health expenditures is the result of simulated health events that would require long-term care in a nursing home or home-based setting for the elderly. Neither of these simulated types of care would be reimbursed by Medicare because they would be for custodial (not rehabilitative) care.

For determining whether an individual has these expenses, the following process is undertaken. An individual reaching the Social Security normal retirement age has a probability of being in one of four possible assumed "health" conditions, based on the estimates of the use of each type of care from the surveys above and mortality:

- Not receiving either home health or nursing home care.
- Home health care patient.
- Nursing home care patient.
- Death.

The individual is randomly assigned to each of these four categories with the likelihood of falling into one of the four categories based upon the estimated probabilities of each event. If the individual does not need long-term care, no stochastic expenses are incurred. Each year, the individual will again face these probabilities (the probabilities of being in the different conditions will change as the individual becomes older after reaching age 75 then again at age 85). This continues until death or the need for long-term care.

For those who have a resulting status of home health care or nursing home care, the duration of care is simulated. After the duration of care for a nursing home stay or episode of home health care, the individual will have a probability of being discharged to one of the other three conditions. The stochastic expenses incurred are then determined by the length of the stay/number of days of care times the per diem charge estimated for the nursing home care and home health care, respectively, in each region.

For any person without the need for long-term care, this process repeats annually. The process repeats for individuals receiving home health care or nursing home care at the end of their duration of stay/care and subsequently if not receiving the specialized care again at their next birthday. Those who are simulated to die, of course, are not further simulated.

As with the basic health care expenses, the qualification of Medicaid by income and asset levels is considered to see how much of the stochastic expenses must be covered by the individual to determine the individual's final expenditures for the care. Only those expenditures attributable to the individual—not the Medicaid program—are considered as expenses to the individual and as a result are included any of the "deficit" calculations.

### *Total Retirement Expenses*

The elderly individual or families' expenses are then the sum of their assumed deterministic expenses based upon their demographic characteristics plus any simulated stochastic expenses that they may have incurred. In each subsequent year of life, the total expenditures are again calculated in this manner. The base year's expenditure value estimates excluding the health care expenses are adjusted annually using the assumed general inflation rate of 3.3 percent from the 2001 OASDI Trustees Report, while the health care expenses are adjusted annually using the 4.0 percent medical consumer price index that corresponds to the June 2002–June 2003 level.[14, 15]

### *Comparison of Retirement Income and Retirement Expenses*

The primary objective of this analysis is to combine the simulated retirement *income and wealth* with the simulated retiree *expenditures* to determine how much each family unit would need to save today (as percentage of their current wages) to maintain a prespecified "comfort level" (i.e., confidence level) that they will be able to able to afford the simulated expenses for the remainder of the lifetime of the family unit (i.e., death of second spouse in a family). These savings rates are reported by age cohort and

gender. Six five-year birth cohorts are simulated. The oldest group was born in the period 1936 to 1940 inclusive (currently ages 66 to 70), while the youngest group was born in the period 1961 to 1965 (currently ages 41 to 45), inclusive. In addition, the relative income was reported by estimating lifetime income quartiles (from 2002 though retirement age) for each of the combinations of birth cohort and gender.

It is important to note that within each of the groups modeled there will undoubtedly be significant percentages in the zero category, as well as those at levels far higher than most individuals could possibly save. These situations are accounted for in two ways: First, medians are reported for each of the groups; in other words, the numbers presented in Figures 8 and 9 provide a number representing the estimate for the 75th or 90th percentile when ranked by percentage of compensation. Second, the reported values are limited to 25 percent of compensation under the assumption that few, if any, family units would be able to contribute in excess of this percentage on a continuous basis until retirement age.

It is also important to note that these percentages merely represent savings that need to be generated *in addition to* what retirement income and/or wealth is simulated by the model. Therefore, if the family unit is already generating savings for retirement *beyond what is included* in defined benefit or defined contribution plans, IRAs, Social Security and/or net housing equity, that value needs to be deducted from the estimated percentages.

After the retirement income and wealth was simulated for each family unit, 1,000 observations were simulated (from retirement age until death of the individual for single males and single females or the second person to die for families), and the present value of the aggregated deficits at retirement age were computed. At that point, the observations were rank-ordered in terms of the present value of the deficits, and the 75th and 90th percentiles of the distribution were determined. Next, the future simulated retirement income accumulated to retirement age was determined, and the information used to determine the percentage of compensation that would need to be saved to have sufficient additional income to offset the present value of accumulated deficits for the 75th and 90th percentiles of the distribution.

### *Results*

Figure 8 shows the median percentage of compensation that must be saved each year until retirement for a 75 percent chance that there will be adequate retirement income when combined with simulated retirement wealth, assuming current Social Security benefits and that housing equity is never liquidated. For example, both genders in the first two income quartiles for the oldest birth cohort are at the 25 percent of compensation threshold. For those in the highest income quartile for this birth cohort, the percentages of additional annual compensation needed to be saved are 23.8 percent for singe females and 13.9 percent for single males.

Figure 9 shows the additional savings required to provide retirement adequacy in 9 out of 10 simulated life paths. In this case, all the medians for both genders in the first three income quartiles are at the threshold. Those in the highest income quartile for this birth cohort all have requirements that would prove difficult if not impossible to implement: Single females are estimated to now need to save more than 25 percent of compensation and single males 22.1 percent of compensation. Given that most individuals would be unlikely to choose a situation that would provide them with adequate retirement income only 50 percent of the time, this analysis focuses only on the 75 percent and 90 percent confidence levels.[16]

## Endnotes

[1] Jack L. VanDerhei and Craig Copeland, , "Can America Afford Tomorrow's Retirees: Results From the EBRI-ERF Retirement Security Projection Model," *EBRI Issue Brief* no.263, November 2003.

[2] http://socialsecurity.gov/pressoffice/factsheets/women.htm, last accessed 3/9/2006.

[3] Social Security provides both survivorship and disability benefits in addition to retirement benefits. See www.ssa.gov for additional details.

[4] SSA states that the median earnings of full-time women workers in 2002 was $30,203 compared with $39,429 for men; however, they also note that this disparity has closed substantially in the past four decades during which period today's retirees would have generated their working histories necessary to calculate Social Security benefits.

[5] Private pensions include survivor, disability, and retirement income pensions from corporate or union sponsors. In addition, *regular* payments from individual retirement accounts (IRAs), Keoghs, and 401(k)-type accounts are included in private pensions. Public pensions include payments from survivor, disability, and retirement income pensions from federal, U.S. military, and state or local sponsors. Other pension income includes survivor payments from U.S. railroad retirement, workers' compensation, Black Lung, regular payments from estates, trusts, annuities, or life insurance, and other survivor payments; disability payments from U.S. railroad retirement, accidental or disability insurance, Black Lung, workers' compensation, state temporary sickness, and other disability payments; and retirement payments from U.S. railroad, regular payments from annuities or paid-up insurance policies, and other retirement payments. These three sources of pension income are combined to determine the percentage of those 65 or older with pension income.

[6] This analysis is based on the U.S. Census Bureau's March 2005 Current Population Survey (CPS) and appeared in Craig Copeland, "Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2004," *EBRI Issue Brief*,( October 2005).

[7] Craig Copeland, "Retirement Plan Participation and Retirees' Perception of Their Standard of Living, EBRI Issue Brief, January 2006.

[8] Sheila Campbell and Alicia H. Munnell, "Sex and 401(K) Plans," *Just The Facts On Retirement Issues* (No. 4, May 2002), Center for Retirement Research at Boston College.

[9] See Jack L. VanDerhei, "Measuring Retirement Income Adequacy, Part One: Traditional Replacement Ratios and Results for Workers at Large Companies," *EBRI Notes* no. 9, September 2004.

[10] Replacement ratios typically attempt to provide an indication of the percentage of income earned just prior to retirement that will be replaced in retirement. This typically involves a numerator that combines annuity payments from Social Security and defined benefit plans with an annuitized amount from defined contribution and IRAs. The denominator will be based on an average of final earnings just prior to retirement age.

[11] Unlike many other models, the model used in this analysis does NOT merely assume that a retiree will survive to his or her average life expectancy. Unfortunately, results generated under these assumptions would provide the amount necessary to pay for retirement expenditures only approximately 50 percent of the time. Instead, this model considers the entire distribution of possible future lifetimes on a gender-specific basis and allows the concept of longevity risk to be explicitly modeled.

[12] The Northeast region includes the states of Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New York, New Jersey, and Pennsylvania. The Midwest region includes the states of Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska, and Kansas. The South region includes the states of Delaware, Maryland, District of Columbia, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Kentucky, Tennessee, Alabama, Mississippi, Arkansas, Louisiana, Oklahoma, and Texas; while the West region includes the states of Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada, Washington, Oregon, California, Alaska, and Hawaii.

[13] For more detail see Jack L. VanDerhei and Craig Copeland, "Can America Afford Tomorrow's Retirees: Results From the EBRI-ERF Retirement Security Projection Model," *EBRI Issue Brief* no.263, November 2003.

[14] The 2003 OASDI Trustees report subsequently reduced the assumed general inflation rate to 3.0 percent. The actuaries at the Center for Medicare & Medicaid Services developed a personal health care chain-type index that is a composite index of health care prices in the overall health care economy, which they predict will rise at a 3.5 percent level annually from 2004–2008 and 3.9 percent annually from 2009–2012.

[15] While the medical consumer price index only accounts for the increases in prices of the health care services, it does not account for the changes in the number and/or intensity of services obtained. Thus, with increased longevity, the rate of health care expenditure growth will be significantly higher than the 4.0 percent medical inflation rate, as has been the case in recent years.

[16] For additional detail on how these findings differ by assumptions for the use of housing equity to pay retirement expenses as well as alternative approaches to Social Security reform, see Jack L. VanDerhei and Craig Copeland, "Can America Afford Tomorrow's Retirees: Results From the EBRI-ERF Retirement Security Projection Model," *EBRI Issue Brief* no.263, November 2003.

Figure 1
**Importance of Social Security for Unmarried Individuals Age 62 and Older, 2003**

Gender Distribution of Total Income Quartiles

| | Male | Female |
|---|---|---|
| 1st (lowest) Income Quartile | 21.6% | 78.4% |
| 2nd | 22.2% | 77.8% |
| 3rd | 24.8% | 75.2% |
| 4th (highest) Income Quartile | 40.2% | 59.8% |

Percentage of Total Income Social Security Represents, by Total Income Quartiles

| | Mean | 5th | 25th | Median | 75th | 95th |
|---|---|---|---|---|---|---|
| All | | | | | | |
| Total | 63.2% | 0.0% | 32.7% | 72.6% | 100.0% | 100.0% |
| Male | 56.1% | 0.0% | 22.5% | 55.9% | 99.2% | 100.0% |
| Female | 65.5% | 0.0% | 37.1% | 79.0% | 100.0% | 100.0% |
| First Quartile | | | | | | |
| Total | 78.3% | 0.0% | 79.1% | 100.0% | 100.0% | 100.0% |
| Male | 75.4% | 0.0% | 57.4% | 100.0% | 100.0% | 100.0% |
| Female | 79.0% | 0.0% | 83.8% | 99.9% | 100.0% | 100.0% |
| Second Quartile | | | | | | |
| Total | 86.8% | 23.5% | 83.9% | 99.7% | 100.0% | 100.0% |
| Male | 84.9% | 0.0% | 83.9% | 99.9% | 100.0% | 100.0% |
| Female | 87.3% | 34.5% | 83.8% | 99.6% | 100.0% | 100.0% |
| Third Quartile | | | | | | |
| Total | 62.9% | 0.0% | 47.3% | 65.8% | 86.5% | 100.0% |
| Male | 64.0% | 0.0% | 49.2% | 66.0% | 91.2% | 100.0% |
| Female | 62.6% | 0.0% | 46.7% | 65.7% | 85.3% | 100.0% |
| Fourth Quartile | | | | | | |
| Total | 27.3% | 0.0% | 4.7% | 26.8% | 42.8% | 64.2% |
| Male | 26.8% | 0.0% | 6.1% | 25.8% | 43.2% | 62.0% |
| Female | 27.6% | 0.0% | 3.1% | 27.1% | 42.6% | 65.2% |

Source: EBRI estimates from the March 2005 Current Population Survey.

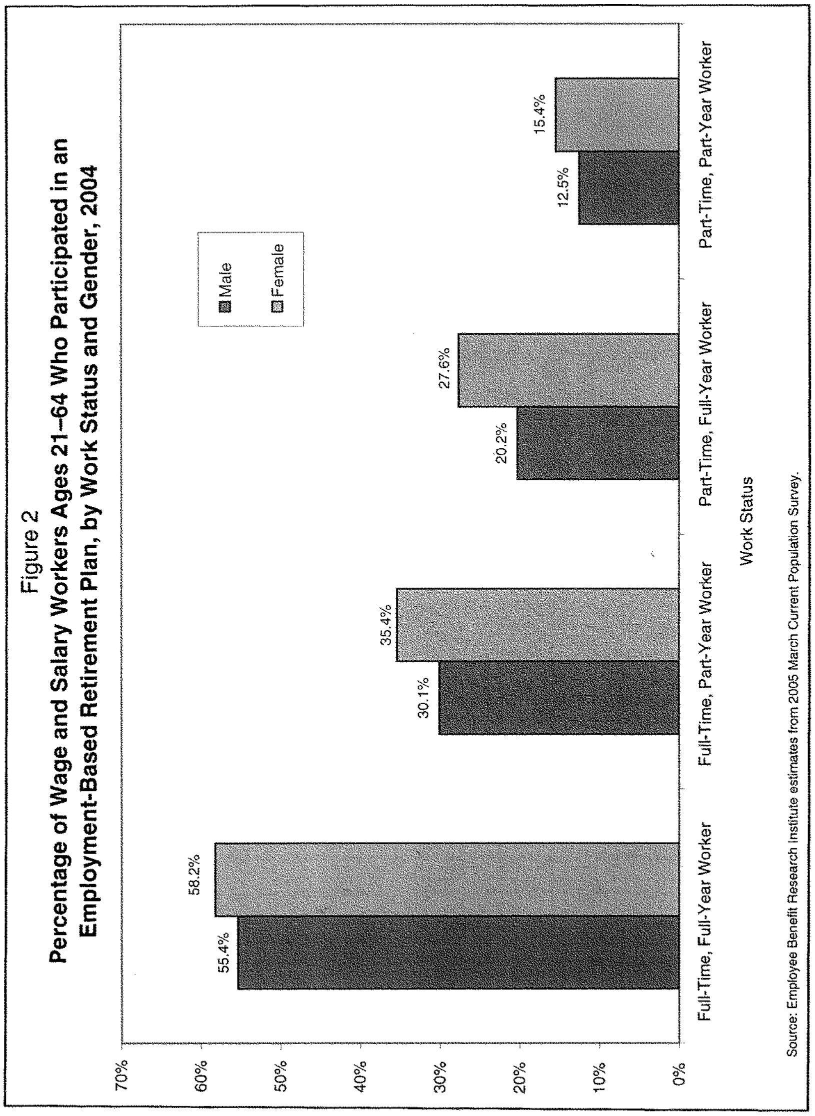



Figure 2

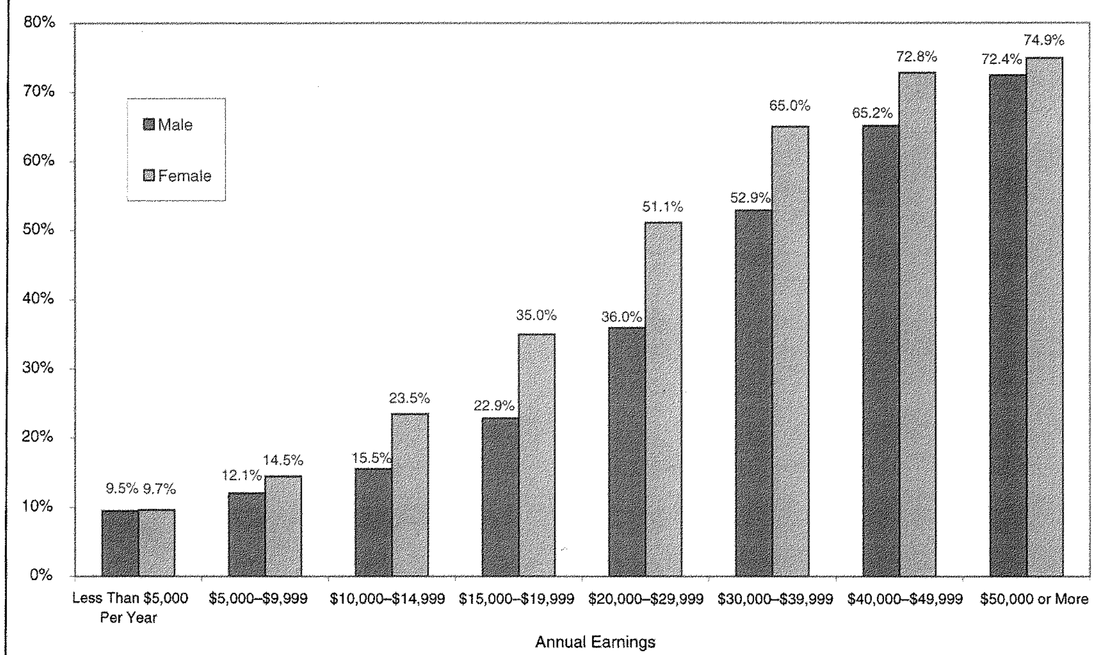
**Percentage of Wage and Salary Workers Ages 21–64 Who Participated in an Employment-Based Retirement Plan, by Work Status and Gender, 2004**

Source: Employee Benefit Research Institute estimates from 2005 March Current Population Survey.

*Jack VanDerhei, Temple University and EBRI Fellow, Testimony before Senate Aging Committee March 15, 2006*

Figure 3

**Percentage of Wage and Salary Workers Ages 21–64 Who Participated in an Employment-Based Retirement Plan, by Annual Earnings and Gender, 2004**




Source: Employee Benefit Research Institute estimates from 2005 March Current Population Survey.

*Jack VanDerhei, Temple University and EBRI Fellow, Testimony before Senate Aging Committee March 15, 2006*

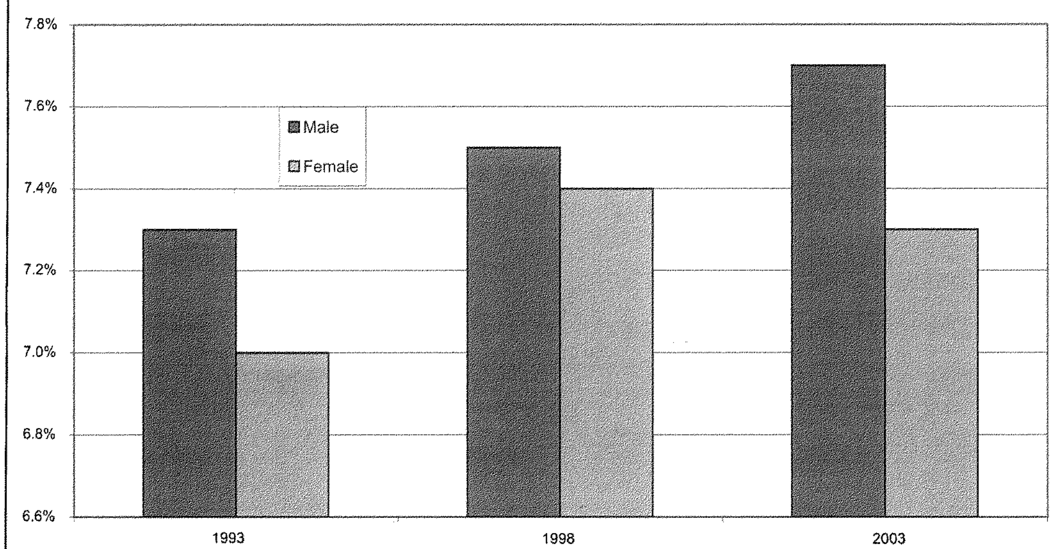
Figure 4
**Distribution of Workers, by Earnings and Work Status, by Gender**

| | Overall | Men | Women |
|---|---|---|---|
| Annual Earnings | | | |
| Less than $5,000 | 12.1% | 9.6% | 14.9% |
| $5,000–$9,999 | 8.2% | 6.0% | 10.5% |
| $10,000–$14,999 | 8.8% | 7.2% | 10.7% |
| $15,000–$19,999 | 8.5% | 7.5% | 9.6% |
| $20,000–$29,999 | 17.0% | 15.6% | 18.5% |
| $30,000–$39,999 | 14.0% | 14.1% | 13.8% |
| $40,000–$49,999 | 9.6% | 10.7% | 8.4% |
| $50,000 or more | 21.9% | 29.3% | 13.6% |
| Work Status | | | |
| Full-time, full-year | 66.6% | 73.6% | 58.8% |
| Full-time, part-year | 13.1% | 13.2% | 12.9% |
| Part-time, full-year | 10.2% | 6.2% | 14.7% |
| Part-time, part-year | 10.1% | 7.0% | 13.6% |

Source: EBRI estimates from the March 2005 Current Population Survey.

Figure 5

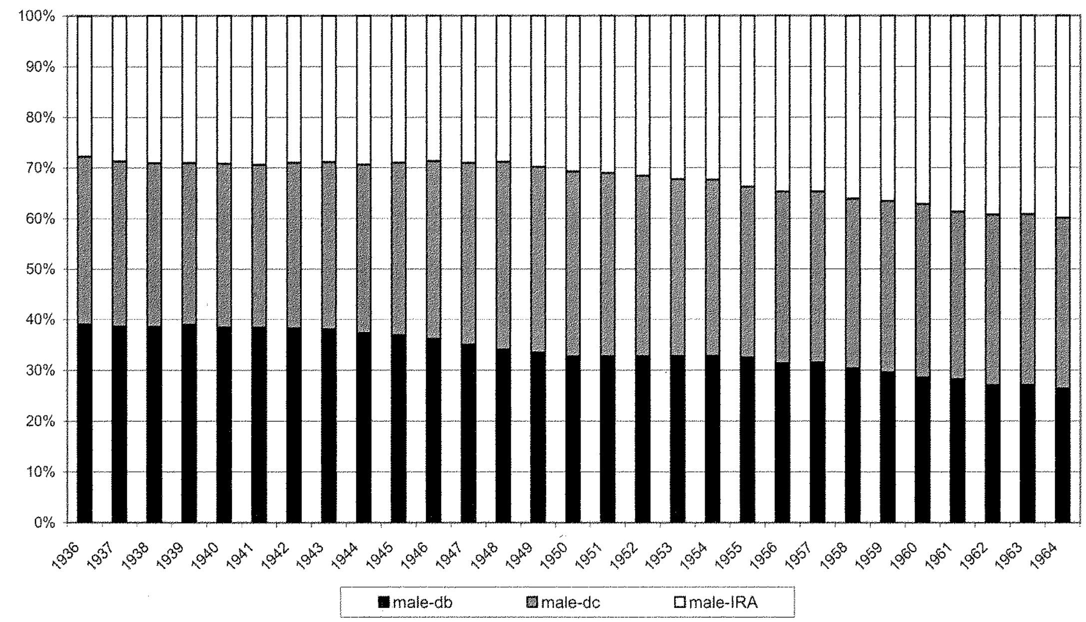
**Average Employee Contribution Rate to Salary Reduction Plans, Nonagricultural Wage and Salary Workers Age 16 and Over**




Source: Employee Benefit Research Institute estimates of the April 1993 Current Population Survey employee benefit supplement and the 1996 and 2001 Panel of the Survey of Income and Program Participation Topical Module 7.

Figure 6

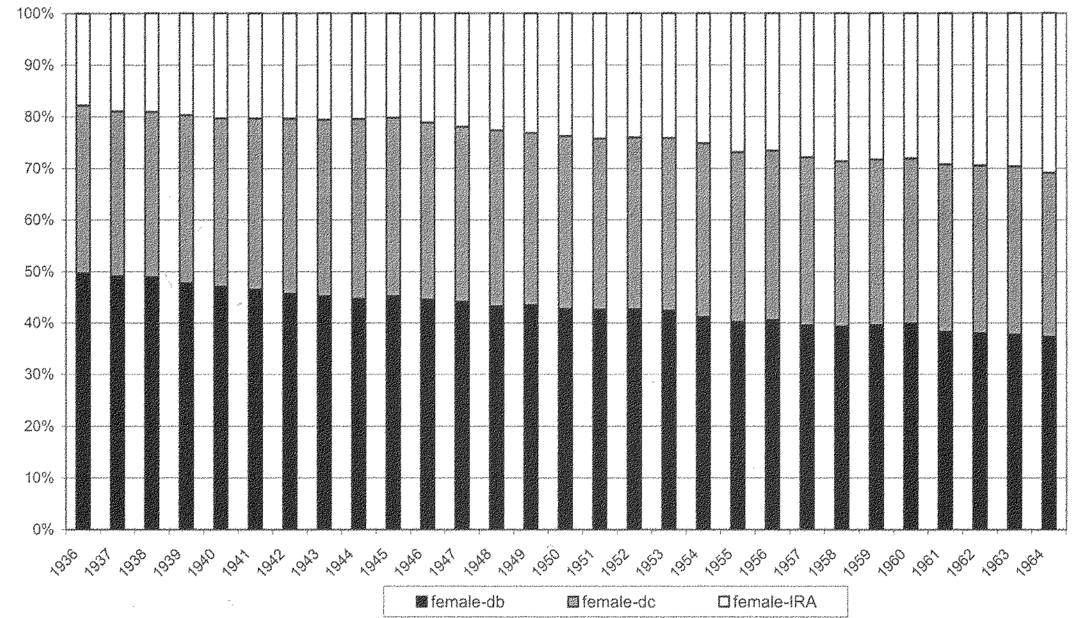
**Composition of Estimated Retirement Wealth for Males at Social Security Normal Retirement Age Under Baseline Assumptions, by Birth Cohort**




Source: Employee Benefit Research Institute, Retirement Income Projection Model.

Figure 7

**Composition of Estimated Retirement Wealth for Males at Social Security Normal Retirement Age Under Baseline Assumptions, by Birth Cohort**



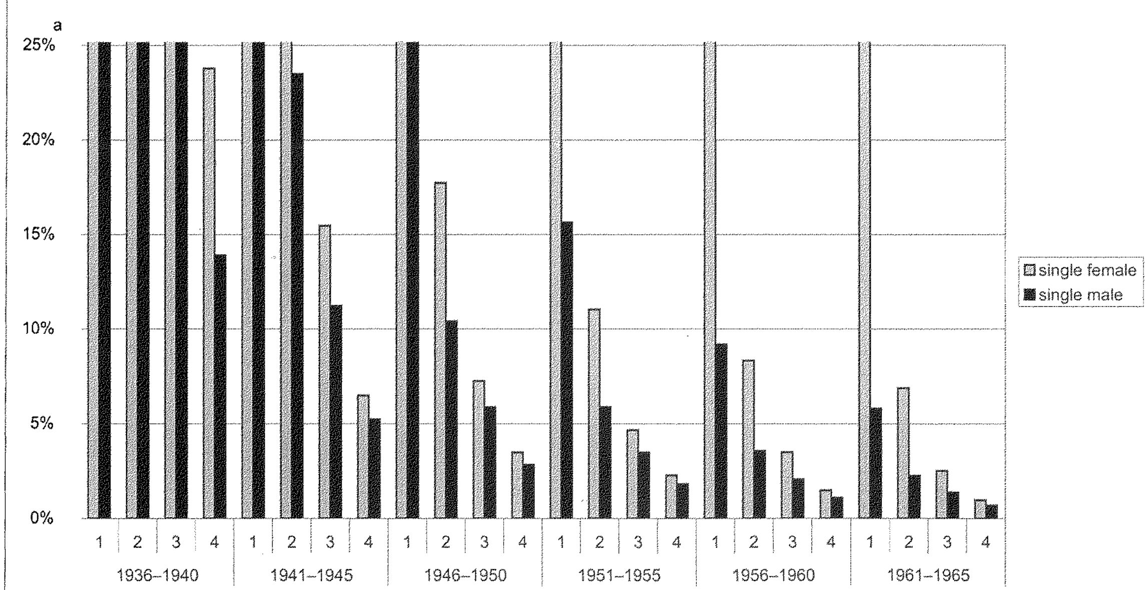

Source: Employee Benefit Research Institute, Retirement Income Projection Model.

*Jack VanDerhei, Temple University and EBRI Fellow, Testimony before Senate Aging Committee March 15, 2006*

Figure 8

**Percentage of Added Compensation That Must Be Saved Annually Until Retirement For a 75% Chance of Covering Basic Retirement Expenses**

(assumes current Social Security and housing equity is never liquidated)




Source: EBRI-ERF Retirement Security Projection Model.

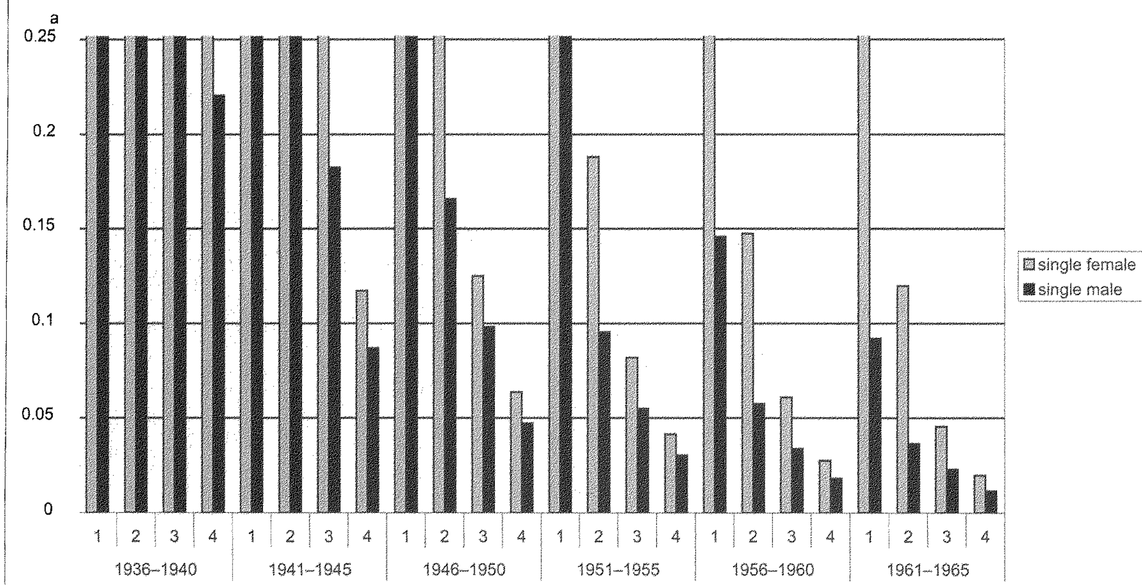
[a] 25% = 25% or more.

*Jack VanDerhei, Temple University and EBRI Fellow, Testimony before Senate Aging Committee March 15, 2006*

Figure 9

**Percentage of Added Compensation That Must Be Saved Annually Until Retirement For a 90% Chance of Covering Basic Retirement Expenses**

(assumes current Social Security and housing equity is never liquidated)




Source: EBRI-ERF Retirement Security Projection Model.

[a] 25% = 25% or more.

*Jack VanDerhei, Temple University and EBRI Fellow, Testimony before Senate Aging Committee March 15, 2006*

The CHAIRMAN. Jack, I guess we all chuckle that you are finding a silver lining in that black cloud. The point is well taken, but it is tragic that the black cloud is there.

First of all, we really appreciate the very insightful testimony each of you have given. But probably all of us in our lives have had a relative who is in a worst case circumstance.

I am thinking specifically of a sister-in-law who was married for 20 years and had three children. Her husband was an independent contractor selling insurance and securities. I think she often just did clerical work, and I don't think any withholdings were ever made for her. The marriage broke up. She is now in another relationship—a part-time bus driver. I doubt, as she enters her 50's, she is in any way vested in Social Security or in a pension. To Barbara's point, we have got to do whatever we can to change the law so she can keep working, because she just has no other prospects.

Jean, you talked about an idea you thought might be overreaching. I wonder if you can expand on your ideas of what we ought to do and how a woman like her might fit into those?

Ms. CHATZKY. I don't have a very good grasp of what the mechanism would be. I am focused a little more on the end result.

What we know about people and saving and the fact that we have such a dismal savings rate right now in this country, is that if you can manage to get the money out of people's hands before they have the opportunity to spend it, that is a good thing. Even small amounts of money, if they are withdrawn automatically or if they are deducted from paychecks automatically, or moved out of a checking account into a savings account automatically, all of those mechanisms actually work to help people put something away for the future.

So in trying to come up with a solution for people who are not in corporations or other employment situations that would help them save something for the future, I just sort of started thinking about the IRS and Social Security and other organizations that do have a hand in the pot already. If there were any way, as political contributions are sometimes taken out of tax filings, to enable people to just check a box and put something small away for the future, it may motivate them to help them save something more in years to come.

The CHAIRMAN. That is a good idea. Maybe we will add it to the bill. Because, I despair for this woman, and I know too many like her in rural places—that just utterly are unprepared for being alone and having any income.

Ms. CHATZKY. Right, and people don't think that they can save until they actually try it, until they actually accomplish it. Then they think that they can do a little more, but it is a little like a diet. You need to sort of see those initial results before you feel that you are actually able to tackle the next five pounds.

The CHAIRMAN. Yes. Senator Kohl?

Senator KOHL. Thank you very much, Ms. Kennelly. I appreciate very much your support of the legislation that I have introduced with Senators Cochran and Durbin, called, as you know, the Older Worker Opportunity Act, which would help older Americans work longer if they choose and remove barriers that make it harder for them to do so.

You noted in your testimony the importance of work as the new fourth leg of today's retirement stool. Could you elaborate just a little more on why you think expanded work opportunities are particularly important for older women?

Ms. KENNELLY. Well, I think, Senator, as I said in my testimony, we are living longer, but fortunately many of us are living healthier lives, so that we can work beyond the age we used to work at. When I hear cases like the one you mentioned Senator Smith, I feel terrible. But you need to know that is an unusual case. Most people who have worked are covered by Social Security because they pay throughout their working lives. Yours is an unfortunate and very rare case.

But the fact of the matter is, while social security is extremely important to women, it's not perfect. It is a very moderate program, and if you are living on social security alone you are not living a huge wonderful life. You are living on the basics.

So women want to work longer, but it's hard to because of the barriers. For example, we have laws that say if you retire from a particular company and you want to stay at that company part time, you can't be part of the pension plan. You have to get out of that company. In your bill I think you address this, that we can have part-time work and have benefits.

Another thing I love about your bill is that you include tax incentives to encourage companies to offer benefits for health care and benefits for retirement so we're be able to keep the older person working. As we see in all the studies, people who are 65 and older, they want to work but they don't want to work full time. Let me tell you something, women have to work.

So if your bill was to become legislation, employers would be much more willing to keep people on part time, and that is a big, big advantage for an older worker. Not everybody, as they get older, can work full time.

Senator KOHL. Thank you very much.

Cindy Hounsell, in your testimony you recommend encouraging annuities in defined contribution plans, expanding the Saver's Credit, and promoting incentives for older workers to continue working. For any or all three of these recommendations, could you elaborate on what proposals seem promising to you?

Ms. HOUNSELL. You mean existing proposals or—well, I think there are a number of bills out there that actually provide tax incentives for people to purchase annuities. I think one of the problems is that people just don't understand how annuities work.

You know, we see that, that every time there is a lump sum opportunity, people just take that money because they think they need it in their hands, and then as soon as they get it, they don't know what to do with it. They are either looking for somebody else to manage it or where to put it. So I think, you know, having it become an option that people have on the job, and get some education from employers, is crucial.

I mean, I would just like to add to what Jean said. Recently I was talking to someone and they said, "You know, what we need is a campaign, because in the 1980's when the first IRAs were deductible for everyone, if you can remember those times, I myself, personally I would have never started an IRA, but everybody was

talking about it." "You've got to do this. You've got to do this." "I don't have $2,000." "Well, you have to put something in."

We need something like that right now, to get so that everybody is talking about you have to do this, even if it is only for a year. We just need something to get people talking about how to do it.

Senator KOHL. Thank you. Thank you, Mr. Chairman. This was a very good panel.

The CHAIRMAN. Let me thank you as well. You have each contributed to our understanding, and highlighted many of the things Senator Kohl and I are trying to do in different bills that will help improve the situation. Your testimony, and obviously C–SPAN covering it, is important and we hope that your wise counsel will encourage more provident living and people making choices in their lives that will provide for their retirement and not their poverty. So thank you so very much, and with that we will call up our next panel.

Ms. KENNELLY. Senator Smith and Senator Kohl, we thank you, because we can't do it. You can.

The CHAIRMAN. Well, you helped us do it.

Our next panel will consist of three women: Ms. Karyne Jones, who is president and chief executive officer of the National Caucus and Center on Black Aged, Inc. Ms. Jones' testimony will focus on the challenges minority women face preparing for retirement.

Then Ms. Sara Hart, the director of Corporate Benefits at CNF Service Company in Portland, OR, and as my constituent I doubly welcome you here. Ms. Hart will discuss the role that employers play in helping women prepare for retirement.

Ms. Lynn Rollins is a senior advisor on Women's Issues to New York Governor Pataki. Ms. Rollins will discuss her personal story of widowhood and the challenges she has faced.

We thank each of you for being here. Karyne, the microphone is yours.

**STATEMENT OF KARYNE JONES, PRESIDENT AND CHIEF EXECUTIVE OFFICER, THE NATIONAL CAUCUS AND CENTER ON BLACK AGED, INC.**

Ms. JONES. Thank you very much, Senator. Senators, it is a pleasure for me to be here. The National Caucus and Center on Black Aged is pleased to testify before this committee on the special challenges of women preparing for financial security in retirement. NCBA has a 36-year history of focusing our efforts on improving the quality of life for elderly, low-income minorities in this country.

Retirement planning is important for everyone, but it is especially important and challenging for minority women. Minority women are less likely to work in jobs covered by pensions. Only 15 percent of black and 8 percent of Hispanic older women received pension incomes in 2000. For those working today, 38 percent of black women, 26 percent of Hispanic women, and 38 percent of Asian/Pacific Islander women are covered by a pension plan. This rate drops sharply when looking at part-time workers: 11 percent of black women, 7 percent of Hispanic, and 10 percent of Asian/Pacific Islander women are covered in pension plans.

Despite the overall decline in poverty rates among older Americans during the last several decades, many older women remain poor. Approximately 12.4 percent of women age 65 and older are poor, compared to 7 percent of men in this age group, and the likelihood of a woman being poor in retirement increases with age.

The poverty rate for single black women over the age of 65 is 41.5 percent, and for a single Hispanic woman it is 49.2 percent. twice the rate of white women. The reality is that many women rely on social security as their primary source of income for their retirement. In fact, social security is the only source of retirement income for 45 percent of unmarried black women and 46 percent of unmarried Hispanic women over the age of 65. The problem is that social security is not designed to be the retiree's sole source of income, but instead was meant to provide only a bare minimum of protection.

We understand the current push for Americans to save. However, women's lower earnings often leave them with few resources to invest. Women usually have little or no money left to save for retirement after paying their bills. Furthermore, the current generation of elderly women of all races has little in the way of savings and investment for their retirement. In fact, half of all unmarried older women have less than $1,278 a year in asset income, which is only about $106 a month.

Now, it is our hope that women would in fact start to save money, because on an average they live about 4 years longer than men. Therefore, they will need more money to support themselves. However, older women are also more likely to have higher expenses for health care and prescription drugs.

Unfortunately, women average lower earnings and spend more time out of the workforce for caregiving, which all of our previous panelists have mentioned. In return, this makes it more difficult for women to save the amounts needed for retirement, much less have the resources to make later contributions.

Experts are projecting that by the year 2050 there will be at least five times more minority women and men ages 65 and older, and about 13 times more who are aged 85 and older. Minority populations are also living longer, and minority women will comprise larger percentages of older populations in the years ahead.

Minority women with limited work histories or who have lived on the margin economically, the retirement picture looks particularly bleak. For example, minority women who might have worked in domestic capacities or were day laborers probably did not earn enough money to contribute to a personal savings account and certainly did not have a pension plan.

Women overall have made many financial improvements over the past 25 years, and some are finding reason for optimism, but a recent survey of African American women on behalf of the Fannie Mae Foundation suggests that while half of African American women are struggling to make ends meet, they are optimistic that their financial situation will improve over the next year.

Younger minority women who spend many more years in the workforce and in higher-paid jobs will most likely be able to save and plan for a financially secure old age. Most women, though, regardless of race or ethnicity, will need to plan carefully in order to

deal with the risk of outliving their assets, and to manage carefully to cover the high cost of health care and longer life spans.

NCBA has focused our attention on educating young people on preparing old age in hopes of addressing these concerns. One of the things that I always say to young people when I speak to them is that aging is not just old people; aging is all of us if we are blessed with a long life.

The harsh reality remains that as long as most minority women earn less money than other women and men and have fewer opportunities to save, they will have less retirement income and face the highest risk of poverty in old age. Some of the suggestions that we would like to give you—and we also commend the bill that you are working on, Senator Kohl, and the efforts that you have made, Senator—many improvements can be made by policymakers to provide low-income minority women with greater retirement security.

Some of the pension reform proposals currently under consideration by lawmakers that could enhance women's retirement security include increasing pension coverage for lower-wage, part-time, and temporary workers; increasing survivor benefits; making pension division upon divorce more equitable for women; and giving women credit for caregiving.

As society, we have an obligation to provide older women with the opportunity to live out their later years with adequate resources that will lead to a dignified retirement. However, as long as most minority women earn less money than other women and men and have fewer opportunities to save, they will have less retirement income and face the highest risk of poverty in their old age.

I thank you for this opportunity, and we hope that we can work together on this very, very important issue.

[The prepared statement of Ms. Jones follows:]

# Testimony of Karyne Jones
# President and Chief Executive Officer
# The National Caucus and Center on Black Aged, Inc.

**Before the**

**The Senate Special Committee on Aging**

**March 15, 2006**

**Dirksen Senate Office Building**

**The National Caucus and Center on Black Aged, Inc. (NCBA)**

**The Special Challenges of Women in Preparing for Financial Security in Retirement**

The National Caucus and Center on Black Aged is pleased to testify before this Committee on the special challenges of women preparing for financial security in retirement. NCBA has a 36-year history of focusing our efforts on improving the quality of life for elderly low-income minorities in the country.

Retirement planning is important for everyone, but it is especially important and challenging for minority women. Minority women are less likely to work in jobs covered by pensions. Only 15 percent of Black and 8 percent of Hispanic older women received pension income in 2000. For those working today, 38 percent of Black women, 26 percent of Hispanic women, and 38 percent of Asian/Pacific Islander women are covered by a pension plan. This rate drops sharply when looking at part-time workers: 11 percent of Black women, 7 percent of Hispanic, and 10 percent of Asian/Pacific Islander women are covered by a pension plan.

Despite the overall decline in poverty rates among older Americans during the last several decades, many older women remain poor. Approximately, 12.4 percent of women age 65 and older are poor compared to 7 percent of the men in this age group, and the likelihood of a woman being poor in retirement increases with age. The poverty rate for single black women over the age of 65 is 41.5 percent, and for single Hispanic women it is 49.2 percent twice the rate of white women. The reality is that many women rely on Social Security as their primary source of income in retirement. In fact, Social Security is the only source of retirement income for 45 percent of unmarried black women and 46% of unmarried Hispanic women over the age of 65. The problem is that Social Security was not designed to be a retiree's sole source of support, but instead was meant to provide only a bare minimum of protection.

We understand the current push for Americans to save. However, women's lower earnings often leave them with few resources to invest. Women usually have little or no money left to save for retirement after paying their bills. Furthermore, the current generation of elderly women of all races has little in the way of savings and investments for their retirement. In fact, half of all unmarried older women have less than $1,278 a year in asset income, or only about $106 a month.

Women should in fact save more money than men because on average they live about 4 more years than men, therefore needing money to support themselves. Older women are also more likely to have higher expenses for health care and prescription drugs. Unfortunately, women average lower earnings and spend more time out of the workforce for care giving. In return this makes it more difficult for many of them to save the amounts needed for retirement much less have the resources to make later contributions.

Experts are projecting that by the year 2050 there will be at least five times more minority women and men ages 65 and older, and about thirteen times more who are aged 85 and older. Minority populations are also living longer and minority women will comprise a larger percentage of the older population in the years ahead. Minority women with limited work histories or who have lived on the margin economically, the retirement picture looks particularly bleak. For example, minority women who might have worked in domestic capacity or as a day laborer probably did not earn enough money to contribute to personal savings account and certainly not a pension plan.

Women overall have made many financial improvements over the past 25 years, and some are finding reason for optimism. A recent survey of African American women on behalf of the Fannie Mae Foundation suggests that while half of African American women are struggling to make ends meet, they are optimistic that their financial situation will improve over the next year.

Younger minority women who spend many years in the labor force and in higher-paid jobs will be the most likely to be able to save and plan for a financially secure old age. Most women, regardless of race or ethnicity, will need to plan carefully in order to deal with the risk of outliving their assets, and to manage carefully to cover the high costs of health care and longer life spans.

NCBA has focused our attention on educating young people on preparing for old age in hopes of addressing these concerns. The harsh reality remains that, as long as most minority women earn less money than other women and men, and have fewer opportunities to save, they will have less retirement income and face the highest risks of poverty in old age.

**Policy Reforms**

Many improvements can be made by policymakers to provide low-income minority women with greater retirement security. Some of the pension reform proposals currently under consideration by lawmakers that could enhance women's retirement security include: increasing pension coverage for lower-wage, part-time and temporary workers, increasing survivor benefits, making pension division upon divorce more equitable for women, and giving women credit for care giving.

As a society, we have an obligation to provide older women with the opportunity to live out their later years with adequate resources that will lead to a dignified retirement. However, as long as most minority women earn less money than other women and men, and have fewer opportunities to save, they will have less retirement income and face the highest risks of poverty in old age. In conclusion, increasing survivor benefits, making pension division upon divorce more equitable for women, and giving women credit for care giving are just a few ways to offer women some relief during the retirement years.

The CHAIRMAN. Thank you, Karyne. Just a question that is on my mind, so I don't forget it in my old age. You talk about how pensions are divided at divorce? Generally, what would the split be? Are women getting less than half?

Ms. JONES. In most cases. I don't have my statistics right in front of me, but I am a victim of that. I was married for 25 years and didn't work for about 15 of those, and so I am in a catch-up phase. When we did go for a divorce, he had done some other things with the retirement and they hadn't gotten my permission, and when they did divide it up, he ended up getting more than I did.

Fortunately, I am able to work, and I am able to still be able to take care of myself, and I am playing catch-up right now, and I am worried about my financial security. But to take it away from the personal attention on me, for the women that I represent with my organization, they don't even have the benefit of that. Usually they just want to get out of the marriage for whatever reason.

The CHAIRMAN. There may not even be a pension to split.

Ms. JONES. There might not even be a pension to split.

The CHAIRMAN. But to the degree there is, do you think courts are mindful of this issue?

Ms. JONES. I would hope that we could look very carefully at the laws to determine that there is—I know in the military they are very, you know, judicial in that fashion. But I have to check. I don't want to make a statement on the record that——

The CHAIRMAN. No, your comment just raises a question. Although divorce is governed by State law, maybe we need to put in some directives as it relates to some of the Federal matters. Perhaps there is something we could do.

Ms. JONES. Well, I have got a lot of upset friends who have been through this process, and they don't feel they got a fair shake.

The CHAIRMAN. I understand.

Sara, thanks for coming all the way from Oregon.

## STATEMENT OF SARA COLE HART, DIRECTOR, CORPORATE BENEFITS, CNF SERVICES COMPANY

Ms. HART. Thank you very much, Senator Smith and Ranking Member Kohl. Sheridan, OR, to be precise, a small town. I appreciate the opportunity to discuss the important issue of the special challenges of retirement facing women.

Some of the testimony from the Senators and from the other presenters has been very powerful, and I don't want to take up this time to go over some of the issues that we all pretty much concur on: that women live longer; they are subject to greater risk in retirement; they have interrupted, noncontiguous work; by living longer, they are more subject to the risk of losing their earnings to inflation; and particularly the risk of higher medical bills, long-term care issues, and the issue of not being able to live independently.

We think that the power of government taking action to establish a national retirement policy, partnered with private employers, can change millions of lives. I want to spend a few minutes talking about the recommendations that we have from the employer side to help women and other retirees throughout their career and through the retirement process.

First and foremost from where we stand is to support and encourage education, including a financial curriculum, as early as primary school. In order for employers to grow the economy and achieve optimal productivity, employers must have an available resource of educated, talented individuals. Addressing the retirement issues facing women must begin as early as possible in order to mitigate the lost opportunities by the lack of a strong education.

We encourage that the EGTRRA pension retirement savings provisions be made permanent, permitting Americans to save more in employer plans and in IRAs. EGTRRA provides significant administrative relief to employers who sponsor plans and enhances the portability among the various plans.

Women are particularly benefited by the Saver's Credit, which assists low-income savers, and also by the catch-up contributions that permit older workers to save more. This is, of course, if those individuals have the money to save in the retirement plans.

Federal income tax code discourages saving. Savings opportunities must be simplified and incentivized for savings to be established. Employers are particularly constrained by cumbersome pension and benefit regulations imposed by the IRC, ERISA—the erosion of ERISA protection—and the ADEA. Employers need flexibility in age and service eligibility to maintain retirement benefits.

Women covered by employer plans will benefit from the transition from defined benefit to defined contribution plans because the structure of a defined contribution plan supports savings accumulation in earlier years of employment and generally will vest earlier. We urge Congress to promote the establishment of a 401(k) type benefit at a Federal level or at least simplify the various 401(k) type plans to make it easier for employers to sponsor those plans.

Additionally, there are several proposals in play right now that could have the potential to undermine the chance of individuals achieving a successful retirement. To balance these proposals, we urge the following:

We urge Congress to help employers and individuals attain some kind of annuity which assists in the protection of income during one's lifetime. Lump sum payments often jeopardize income security, especially for women who live longer.

Second, we urge you not to support proposals that make it easier for active employees to take money out of their retirement savings programs for any reason. Employees have historically understood that defined benefit plan accumulations were not available for preretirement expenses. Defined contribution assets should be treated the same way.

We also encourage the Senate not to adopt the House-sponsored benefit for distributing retirement income to military reservists, as this is a short-term proposition that could have long-term, significant negative effects for our military personnel.

We urge you to strengthen rules permitting a rollover from an employer-sponsored plan to an eligible IRA or other qualified retirement plan, and increase disincentives for taking distributions prior to retirement.

Early on, when 401(k) plans were established, defined benefit plans were the rule, and it was deemed necessary for employers to offer loans, hardship withdrawals, and other withdrawals to en-

courage participation in a 401(k) plan. Now, with the transition to defined contribution plans as a primary retirement savings vehicle offered by employers, and the prevalence of the defined contribution plans, we must curtail loans, withdrawals, hardship withdrawals, and other mechanisms that allow people to borrow against their retirement savings. Curtailment of these types of withdrawals is crucial, and education about the adverse effects of early withdrawals is essential.

We urge support of the auto enrollment process and auto increases in a 401(k) plan, encourage and support establishing a safe harbor for employers that provide those automatic benefits.

Employers need 404(c) relief. We urge the DOL to affirm permissible asset classes and investment types for default investments in the 401(k) plans.

Employers need a fiduciary safe harbor for employers who select qualified independent investment advisors to assist workers. Education, and particularly financial education, is extremely important for an individual to be able to accumulate retirement savings. Tax advice and investment advice is invaluable.

We also encourage promotion of changes to ERISA, the tax code and the labor code that simplify and permit more flexibility. There are so many required notices that even participants don't pay attention, and many of the required notices are no longer either important or applicable.

We support expanded benefit statements and the DOL web site for retirement planning, and encourage simplified 5500 and other Federal reporting.

Employers recognize that the defined benefit system is in serious financial trouble and jeopardizes the pension benefits for millions of people. The PBGC obviously has a substantial deficit. However, the concept of insurance in the PBGC is truly broken, and the few DB plan sponsors that are left among employers are required to pay higher premiums, submit to substantial administrative, accounting, reporting and funding changes that make it much more difficult to sponsor a defined benefit plan. The increased volatility produced by the combination of reduced smoothing and elimination or restriction of credit balances are further disincentives for employers to continue to sponsor DB plans.

Employers would like to see a resolution in the social security funding issues. Benefits sponsored by employers as a share of workers' earnings are expected to decline. Medicare premiums, which are subtracted from social security benefits, as we know, have already begun to be means tested. That is rolling out next year. Social security benefits could be further reduced or have a risk of being further reduced to solve short-term funding crises.

We urge elimination of the rules and incentives that discourage employees from continuing to work beyond retirement age. The current social security system contains many benefits that must be maintained and strengthened, including the full cost-of-living adjustments, guaranteed lifetime benefits, a progressive benefit formula, and spousal, disability, and widow's benefits. Social security improvements must maintain these guaranteed benefits and consider them equity of pension benefits and retirement security for women.

We also support social security credits for time spent as a non-paid caregiver, and we propose that this could be funded by means testing for wealthier retirees. Consider a type of retirement account open to people without earned income so that caregivers could hold something in their own names.

We encourage the implementation of phased retirement programs, and particularly Senator Kohl's proposals. Currently retirement programs, defined benefit programs, defined contribution programs, do not allow an individual to take down or draw down their pension plan while they are working for their current employer, so this is a talent drain for employers. In addition, what it really forces employees to do is go work for somebody else when they want to use phased retirement, if they need to get part of their retirement income.

Recognize that the traditional concept of retirement is changing from the work, save, and retire model and being replaced by a life style change. Gradual transition keeps talent in the workforce and helps employers retain productive, educated workers while they are transitioning to retirement with lower hours and reduced responsibility. Seasoned employees want to continue to make a difference. We support regulations that eliminate the confusion and allow for the establishment of phased retirement.

Employers are also looking to Congress to affirm established precedent in hybrid plans, as well as settle the issues surrounding hybrid plans on a prospective basis.

Women face special challenges in finding a new job, a career, an employment path, and maintaining a place in the workforce to become economically self-sufficient. Congress must support maximization of ongoing training opportunities that balance the retirement of a modern workforce with the income, civic, family and social needs of individuals. Tax incentives for employers to hire and train women returning to the workforce are undoubtedly a win-win cause and a solution to the under-utilization of women's talent.

Today, with so much attention focused on the issue of retirement and pension reform, we have a meaningful and powerful opportunity to strengthen, not strangle, employer-sponsored retirement systems, thereby offering stability to women and other workers.

Thank you for having me today.

[The prepared statement of Ms. Hart follows:]

Testimony of Sara Cole Hart
Before the
United States Senate Special Committee on Aging
March 15, 2006

Good morning Chairman Smith, from the great state of Oregon, Ranking Member Kohl and Members of the Committee. I appreciate the opportunity to discuss the important issue of the special challenges facing women in retirement.

Today, one out of four older women lives in or near the poverty level, according to the Older Women's League (OWL). Too many women rely on Social Security as their sole source of income. While the pension crisis is real, aging does not have to signify a decline in financial, physical or mental capacity. However the fact is that women in America, particularly women from economically or educationally disadvantaged backgrounds and women from racial or ethnic minorities are confronted with a serious, and often certain, challenge of living in poverty as they age. In fact, data show that one-fifth of elderly unmarried women and one-third of elderly women of color were in poverty in 1998.

Many studies and data analyses from some of the most credible organizations have examined this issue and all agree on the basic reasons why this is true. While I will review the various elements that conspire to create this crisis, I do not intend to spend this valuable time to discuss what has already been so thoroughly documented. Instead, I would rather speak to the potential solutions and answers that are within our grasp if we are serious about addressing this crisis.

The power of government taking action to establish a national retirement policy, partnered with private employers, can change millions of lives.

**Review of the Reasons Women are more Likely to End their Life in a State of Poverty**

- The two main elements in determining an ultimate retirement income from a private pension plan or from Social Security are compensation levels throughout a worker's years of labor and the number of years in the full-time workforce.

    - Women tend to have higher incidence of interrupted (non-contiguous) employment as a result of their frequent role as primary caregivers of children and, later, elderly family members.[i] Entering and leaving the workforce and working for multiple employers, often result in women not achieving vesting in a retirement benefit.
    - Women earn less than do men.[ii] This is attributable to multiple factors including education and career interruptions, higher prevalence of part-time work,[iii] and frequency of working for smaller employers in lower paid positions, not covered by a private pension plan.

- The socio-economic continuum has changed. Traditionally a woman relied on her husband for financial support and the single or elderly were embraced and cared for within the fabric of extended family. With rising divorce rates, prevalence of households headed by single women and increasingly mobile lifestyles of people of all ages, this no longer holds true.[iv] The fact is that there is not enough money leftover after paying bills to save for retirement for most Americans.

- The tenuous financial status of elderly women is also related to marital status, race and ethnicity.[v]

- Women are less prepared for retirement and are more intimidated about financial issues than men.[vi]

- The life expectancy of a female is longer than for a male.[vii] This single demographic fact presents four distinct issues.

    - A woman must accumulate a larger nest egg during her working years to last through her longer lifetime.
    - A woman is disproportionately affected by loss of purchasing power due to inflation.

- Longer life often results in significantly more serious or debilitating health problems, leading to higher medical expense and the probability of losing independence, requiring long term care or assisted living.[viii]
- A widowed elderly woman is subject to the loss of her spouse's pension income and reduced Social Security benefits. [ix]

**Recommendations for Solutions to the Pension Crisis faced by Women**

Support and encourage education, including a financial curriculum, beginning in primary school. In order to continue to grow the economy and achieve optimal productivity, employers must have an available resource of educated, trained individuals. Addressing the retirement issues facing women must begin as early as possible in order to mitigate the lost opportunities faced by lack of a strong education.

Make the EGTRRA pension and retirement savings provisions permanent, permitting Americans to save more in employer plans and IRAs. EGTRRA provides significant administrative relief to employers who sponsor plans and enhances the portability among various plans. Women are particularly benefited by the Saver's Credit, which assists low-income savers and by catch-up contributions that permit older workers to save more.

Federal income tax code discourages saving. Savings opportunities must be simplified and incentives for saving must be established. Employers are constrained by cumbersome pension and benefit regulations imposed by IRC, ERISA (and the erosion of ERISA protection) and ADEA. Employers need flexibility in age and service eligibility to maintain a retirement benefit.

Women covered by employer plans will benefit from the shift to a 401(k) or defined contribution plan arrangements because their structure supports savings accumulation during earlier years of employment. Congress should promote the establishment of a 401(k) type benefit at a federal level, allowing individuals or small business to take advantage of simplified administration and lower costs. Additionally there are several proposals in play right now that have the potential to severely undermine the chance of achieving a successful retirement.

- Help employers and individuals obtain some type of annuity which assists in the protection of income during one's lifetime. Lump sum payments often jeopardize retirement income security, especially for women who live longer.
- Do not support proposals that make it easier for active employees to take money out of their retirement savings programs for any reason. Workers have historically understood that defined benefit plan accumulations were not

available for pre-retirement purposes. Defined contribution assets should be treated the same way. Do not adopt House sponsored distribution for qualified reservists, as this short term proposition will have long-term negative effects.

- Strengthen rules promoting a roll-over from an employer sponsored benefit to an eligible IRA or other qualified retirement vehicle. Increase disincentives for taking distributions prior to retirement.
- Early in the initiation of 401(k) plans, it was deemed necessary to offer loans and hardship withdrawals in order to ensure participation. With the prevalence of defined contribution plans, loans and withdrawals undermine future retirement income security. Curtailment of these types of withdrawals is crucial and education about the adverse effects of early withdrawals is essential.
- Support auto enrollment and auto increases into an employer's 401(k) plan and eliminate the ERISA preemption of state law restricting auto enrollment. Establish a safe harbor.
- Expand 404 (c) relief. Urge the DOL to affirm permissible asset classes and investment types.
- Add a fiduciary safe harbor for employers who select qualified independent investment advisors to assist workers. Studies indicate that women tend to invest more conservatively than men, receiving lower rates of return from their investment over time, thus reducing the amount of savings they have at retirement. The addition of investment advice is invaluable.
- Promote changes to ERISA, the tax code and labor code that simplify and permit more flexibility. There are so many required notices that even participants don't pay attention.
- Support expanded benefit statements and the DOL website retirement planning tools.
- Simplify 5500 reporting for small plans.

The employer sponsored defined benefit system is in serious financial trouble, jeopardizing the pensions of millions of workers. The PBGC has a substantial deficit. However, the concept of "insurance" in the PBGC is broken with the few DB sponsors remaining required to pay higher premiums and submit to substantial administrative, accounting, reporting and funding changes. The increased volatility produced by the combination of reduced smoothing, the elimination or restriction of credit balances cause further disincentive for employers to continue to sponsor a DB plan. Employers also question the fairness of reform allowances for the particular industries.

Resolve the Social Security funding issue. Benefits as a share of workers' earnings are expected to decline in the future. In addition, Medicare premiums - which are subtracted from Social Security checks - are expected to rise rapidly. Social Security benefits may be further reduced to solve a long-term funding shortfall. Eliminate rules and incentives that discourage employees from continuing to work beyond traditional Social Security retirement age. The current Social Security system contains many benefits that must be maintained and strengthened, including full cost of living adjustments, guaranteed lifetime benefits, a progressive benefit formula, spousal and

widow benefits, and disability and survivor benefits. Social Security improvements must maintain these guaranteed benefits and consider the inequity of pension benefits and retirement security for women.

Support Social Security credits for time spent as non-paid caregivers, funded by means testing for wealthier retirees. Consider a type of retirement account open to people without earned income, so that caregivers could hold something in their name other than an IRA.

Encourage implementation of Phased Retirement programs that match the reality of today's aging workforce. Pension regulations currently prohibit defined benefit plans from offering benefits before normal retirement date. Employers are facing labor and talent shortages. Recognize that the traditional concept of retirement is changing from work-save-retire model and being replaced by a lifestyle change. Gradual transition keeps talent in workforce and helps employers retain productive workers while transitioning into retirement by reduced hours and responsibility. Seasoned employees want to continue to make a difference. Support regulations to eliminate confusion and allow for establishment of phased retirement.

Employers are looking to Congress to affirm established precedent in Hybrid plans as well as settle the issues surrounding these plans on a prospective basis. The continued uncertainty is a strong deterrent to committing to sponsoring a Hybrid type plan.

Women face special challenges in finding a new job, career, employment path and maintaining a place in the workforce to become economically self-sufficient. Congress must support maximization of ongoing training opportunities that balance the requirements of a modern workforce with the income, civic, family and social needs. Tax incentives for employers to hire and train women returning to the workforce are undoubtedly a win-win cause and are a solution to the underutilization of women's talent.

Today with so much attention focused on the issue of retirement and pension reform, we have a meaningful opportunity to strengthen not strangle employer sponsored retirement systems, thereby offering stability to women and other workers. If Congress fails to enact a national retirement policy that recognizes the special needs of women it is tantamount to sanctioning poverty in old age as a natural result.

Endnotes:

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[i] Women on average spend 10 years away from the workforce, for these and other reasons, versus one year for men. Financially, this results in lower overall earnings and smaller pension and Social Security benefits. For every year a woman stays out of the workforce, it will take her five years to recover lost income, pension coverage, and career advancement.

[ii] Bureau of Labor and Census Bureau statistics from 1999 reveal that females age 25-34 earned a median income of $18,396, contrasted to males' median income of $29,864. Women 25 years and older with at least a bachelor's degree earned a median income of $31,642, while men in that same category earned a median income of $52,240. The weekly earnings gap equaled 23.5% and the annual earnings gap was 27.8% between females and males. Annual earnings for women working full time amounted to 72.2% of men's annual earnings.

[iii] About twenty-five percent of all women work part time, compared to about ten percent of men, and are most likely to work part time when they have children at home. Women spend fewer years in the workforce, an average of 32 years, contrasted to an average of 44 years for men.

[iv] Divorce and the problem of default on child support payments is a national crisis disproportionately affecting women and their ability to participate fully in the workplace and accumulate retirement savings. A U.S. Census Bureau report, Child Support for Custodial Mothers and Fathers, determined that out of 14 million custodial parents approximately 85% were women and 15% were men. Fewer than half received their full court-ordered child support payments. Custodial parents were due about $30 billion, with mothers due $26.4 billion and fathers $2.7 billion. The burden of child and household support falls more often to women with single incomes. Studies show that the average annual income for a divorced midlife woman is only $11,000.

[v] According to the Center on Budget and Policy priorities data using 1999 data collected by Bureau of Census.

[vi] A 1997 study by Dreyfus and the National Center for Women and Retirement Research found that 33% of women investors avoided making decisions out of fear of making a mistake, versus 22% of the male investors. Women often defer financial decisions and money management to the men in their lives.

[vii] On average, a woman retiring at age 55 can expect to live another 27 years, 4 years longer than a man retiring at the same age. With advances in healthcare during this century, life expectancies have continued to rise. More people reach the traditional retirement age of 65 than in the past and life expectancy during retirement has increased. In 1900, the average life expectancy for women was 47 years of age. Only one person in 25 survived to age 60 and women lived shorter lives due to childbirth, according to the U.S. Bureau of the Census. However, by 1950, life expectancy for women averaged at 71 and 65 for men. In 1990, females reaching the age of 65 were expected to live just over 19 years longer and men, on the average, lived 15 more years after the age of 65.

[viii] Women are twice as likely as men to live in a nursing home and will spend more years and a larger percentage of their lifetime disabled.

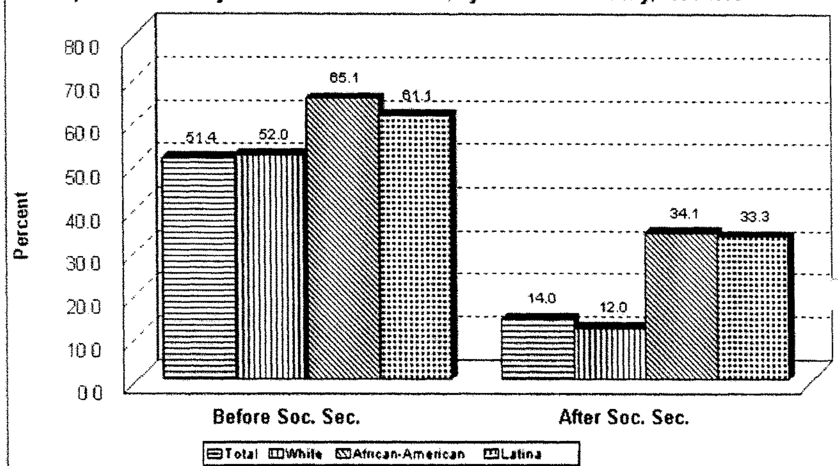
[ix] Women tend to marry older men; consequently, seven out of ten women, whose marriages remain intact, will outlive their husbands. Many of those women will be widows for fifteen to twenty years. The Administration on Aging notes that over half the elderly widows now living in poverty were not living in poverty before their husbands died.

**Figure 1**

## Proportion of Elderly Women Who Were Poor, by Race and Ethnicity, 1994-1998

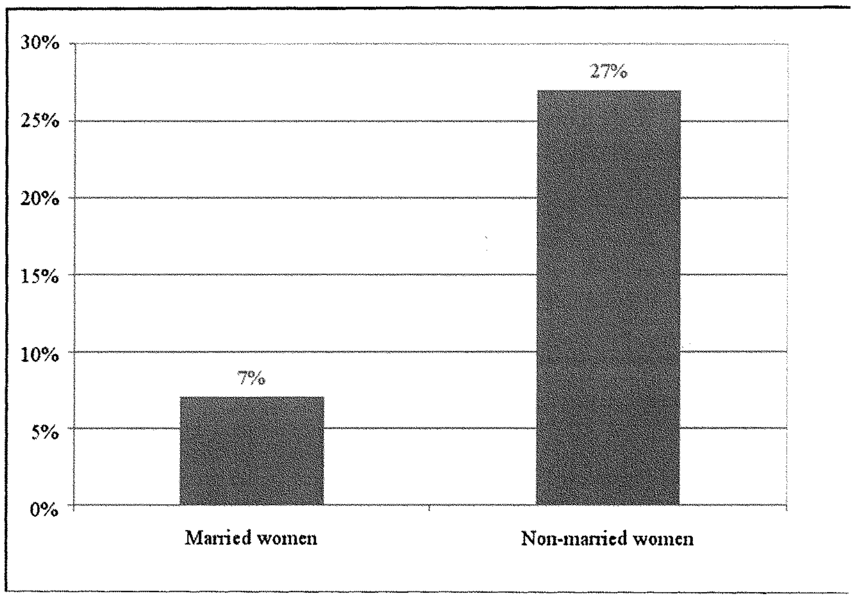
**Figure 7**

**Proportion of Elderly Women Who Were Poor, by Race and Ethnicity, 1994-1998**



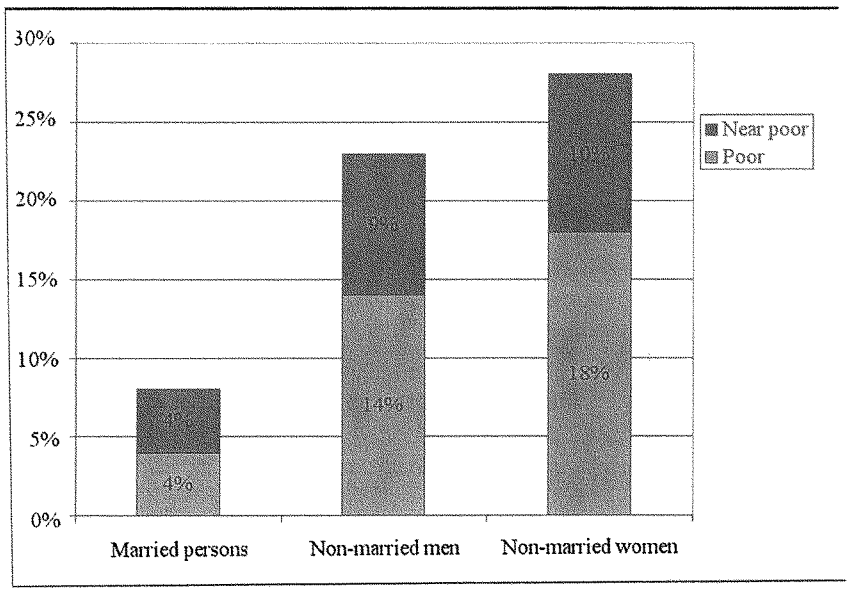

Source: These data are the result of analyses by the Center on Budget and Policy Priorities using Current Population Survey data collected by the Bureau of the Census. The measures of poverty in this chart differ from the official poverty measure. The poverty rates "before Social Security" were determined by counting only income from social insurance such as federal pensions and unemployment insurance benefits, but not Social Security or any means-tested benefits. The poverty rates "after Social Security" were determined by counting income from social insurance and Social Security; benefits from means-tested programs were not counted. By contrast, the official poverty measure counts all cash income, including all government cash benefits. Benefits not in the form of cash (e.g., food stamps) are not counted.

Figure 2
**Percent of Women Poor or Near Poor, Age 65 - 69**



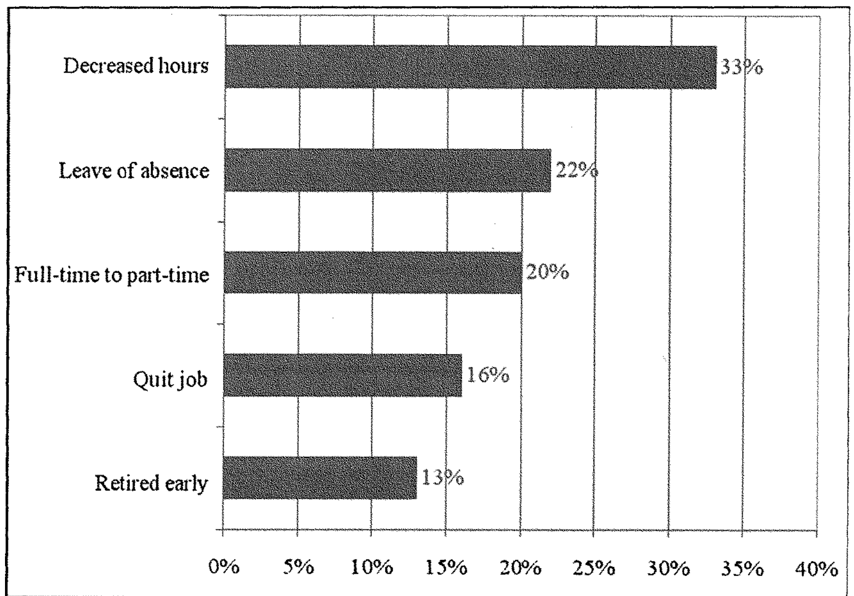

**Source: US Social Security Administration (2002)**

**Figure 3**
## Life Expectancy at Age 65




**Source: US Social Security Administration (2003)**

Figure 4
**Effects of Caregiving on Work Schedule**




**Source: Metropolitan Life Insurance Company (1999)**

The CHAIRMAN. Thank you, Sara. Those are many excellent ideas, some of which we have in our bills, and maybe some we ought to add to them.

Lynn Rollins.

**STATEMENT OF LYNN ROLLINS, SENIOR ADVISOR FOR WOMEN'S ISSUES TO NEW YORK GOVERNOR PATAKI**

Ms. ROLLINS. Do I recommend legislation to keep men alive longer first or last?

Mr. Chairman and Ranking Member Kohl, thank you very much for inviting me to testify. I am one of the many faces of widowhood. I always did what I was told to do.

I grew up, I got good grades. When I asked my father for guidance in college, he said to major in what I loved. My purpose in being there was to be a well-educated housewife. I married. I wasn't too old. I produced beautiful and healthy children, one of each sex. I did not fight with my mother-in-law.

My first job in New York City was as a computer programmer and then I became a systems analyst. I was capable of taking care of myself. I gave up working when my first child was born, and I then moved cross-country four times and did five kitchens from scratch. During this time I accumulated 13 years of zeros in my social security average.

When I was 44 and my husband was 47, he was diagnosed with cancer and I was told he had 2 weeks to live. At that point we had one child about to go to college and one in high school. I lived in an affluent community in Westchester County, and my husband had $125,000 worth of life insurance. He was a marathon runner and he had not thought about mortality.

We were very lucky. He lived almost 4 years, and though our savings were depleted by the end of those years, the company he worked for changed insurance carriers during that time and he had a one-time opportunity, without a physical, to buy more life insurance. In addition, the company he worked for did not put him on disability for over 3 years.

Two years after his death, with my children's permission, I moved into New York City and because I was lonely, I went back to school. I took financial planning courses and ended up taking the national exam to become a Certified Financial Planner. As I was taking these classes, I was horrified, one, that I wasn't left a multimillionaire and, two, that I looked back at some of our mistakes. I want to note that my husband was an Ivy League graduate and he was fiscally very conservative. He didn't know any more than I knew.

What were a few of our worst mistakes? Well, we lived in Texas during the oil crisis, when property values were falling 1½ percent per month. So when we had to move back East, in order to buy a house for us my husband cashed in his 401(k). I remember writing a check to the government for $125,000 worth of taxes, but I had no idea what I had just done. We didn't know that if you pay your own disability premium, the money comes to you tax-free. I now know that more people need disability during their lifetime than life insurance.

We clearly had no idea about the adequate amount of life insurance. One woman I know whose husband dropped dead on the golf course was told by her husband's lawyers to take her life insurance money and flee to Florida. She had signed a loan against her home for her husband to invest in a business, and because her name was on the loan, his life insurance belonged to the bank that held the note. What wife would not have signed that note, unaware as we would have been of the consequences?

In addition, my husband worked for an investment bank for 10 years. He had an annuity with them that they made me take as if he had taken it when he turned 55. My widow's half for these 10 years of his work is a taxable $168.31 a month. I did receive a $250 death benefit from social security and nothing more, because my youngest child had just turned 18.

I had many part-time jobs over the years, but it was a completely different world trying to go back into the workforce. Computers had changed in 20 years. But in that area I have been most fortunate. I have been working for Governor George Pataki for 11 years on women's issues, and it has been extraordinarily rewarding.

I now have interns who work for me during the summers or school year, who get financial planning immediately. One of them told me recently that she had used information I had taught her in a talk she gave in her college class. She said the teacher commented that she wished someone had given her that information at an early age. I had another intern who left her business card and a big note for me on my desk that said, "I have a Roth IRA and a 401(k). Hurrah!" I don't know that I would have made different life decisions, but with more knowledge like the financial education program that WISER gives, my husband and I would have been better able to plan for our family's future. The point is, I didn't understand the decisions I was making, and more importantly, not making.

I suppose I could say I would have been well taken care of if life hadn't taken an unexpected turn, but unexpected seems to be more of the norm than not. Has my standard of living changed? May I just say that I am not making today what my husband was making 25 years ago.

I was married 26 years and I have been a widow already for 14, and I have decades more to go. The average age of widowhood in this country is 56, and though I was younger than that, I am only one of thousands of widows who are facing a retirement for which they did not prepare.

On a lighter note I want to end that when you really get passionate about this, which I am, and you start talking to your children about it, and the first question you ask them when they tell you about a significant other is, "Are they funding their IRA?" you will get very strange looks sometimes. [Laughter.]

I was actually very interested to know whether Senator Salazar was funding his 18-year-old daughter's IRA, because she is old enough to start.

Thank you very much.

[The prepared statement of Ms. Rollins follows:]

TESTIMONY
Committee on Aging
U.S.Senate
March $15^{th}$, 2006

Mr. Chairmen and members of the committee, thank you for inviting me to testify.

I always did what I was told to do. I grew up, got good grades, went to college and majored in what I loved. When I asked my father for guidance during college, he said to enjoy it because the purpose of my attending college was so that I would be a well educated housewife. I married at a fairly young age, produced two healthy and beautiful children, one of each sex and never argued with my mother-in-law. My first job in New York was as a computer programmer and then I became a systems analyst. I gave up working to have my first child. I then moved cross-country four times and redid five kitchens. During this time, I accumulated thirteen years of zeroes in my social security average.

When I was 44 and my husband was 47, he was diagnosed with pancreatic cancer and I was told he had two weeks to live. At that point, we had one child about to go to college and one in high school. I lived in an affluent community in Westchester County and my husband had $125,000 worth of life insurance. He was a marathon runner and had not thought about his mortality.

We were very lucky. He lived almost four years and though our savings were depleted by the end of those years, the company he worked for changed insurance carriers and he had a one time opportunity to purchase more life insurance without taking a physical exam. In addition, the company he worked for let him work as much as he was able to and did not put him on disability for over three years.

Two years after his death, with the permission of my children, I moved to New York City and because I was lonely I went back to school. I ended up taking some financial planning courses and passing the national exam to become a Certified Financial Planner. As I was taking the classes, I became horrified at the mistakes that we had made....and my husband was an ivy league graduate and very fiscally conservative.

What were some of those mistakes? We lived in Texas during the oil crisis and, because the price of real estate fell so much, my husband cashed in his 401K in order to be able to buy a house for us when we moved back to the New York area. I remember writing a check for $125,000 to the federal government. We didn't know that if you pay your own disability insurance premium, the money is tax free when it comes to you. We clearly had no idea about the adequate amount of life insurance. One woman I know whose husband dropped dead on the golf course, was told by her husband's lawyers to take her life insurance money and flee to Florida. She had signed a loan against her home for her husband to invest in a business and because her name was on the note, his life insurance belonged to the bank that held the note. What wife would not have signed that note unaware as we would have been of the consequences.

In addition to this, at one point in my husband's life he had worked for an investment bank for ten years. He had an annuity with them which they made me take as if he had taken it at the age of fifty-five. I get for these ten years, $168.31 monthly which is taxed; but I do get it for life. I received a $250 death benefit from social security and nothing more because my youngest child had just turned nineteen.

I had many part time jobs over the years but it was a completely different world trying to go back into the workforce. In that area I have most fortunate. I have been working for Governor

George Pataki for eleven years on women's issues and it has been extraordinarily rewarding. I now have interns who work for me during the summers and school year who get financial planning from me immediately. One of them told me recently that she had used some of the information I had given her for a talk she gave in class. She said the teacher commented that she wished someone had given her that information at an early age.

I don't know that I would have made different decisions. The point is I didn't understand the decisions I was making and equally importantly not making. I suppose I could say I would have been well taken care of if life hadn't taken an unexpected turn; but unexpected seems to be more the norm than not.

I was married for twenty-six years and have been a widow already for fourteen and I have decades more to go. The average age of widowhood in this country is 56 and though I was younger than that, I am only one of thousands of widows who are facing a significantly lower standard of living for which they did not prepare.

Thank you.

The CHAIRMAN. Thank you, Lynn. Yours is both a sad story but also very helpful because of what you have done with your life's choices.

Ms. ROLLINS. Thank you.

The CHAIRMAN. I just hope that every woman in America could hear what you just said. Do you have a sense of when public schools ought to be teaching these provident living principles? I mean, several witnesses have commented, I think, that our economic literacy is just appalling.

Ms. ROLLINS. Well, you know, it is interesting because there are I think like 9 million high school students in this country, and of those 9 million, 500,000 drop out of school every year. So if you really want to teach everybody just a little bit about it, you clearly need to start it either in middle school, elementary school, or certainly before high school is finished, because otherwise there is a whole group of people who are probably going to be on the lower income level, who aren't going to have any knowledge of it at all.

My experience has also shown—and I have lots of anecdotes—that men don't know anything more than women. It is just that they don't live as long and they make more money. So they need to be educated, too, and I would say you need to get everybody really early.

The CHAIRMAN. I know you are not in the public school system in New York, but working with the Governor and as a financial planner concerned with women's issues, are you aware of whether New York is doing anything on this in the curriculum?

Ms. ROLLINS. I actually know that there is a Council on Economic Education that Robert Duvall is in charge of, that is trying to get economics taught in all of the high schools in the United States, and they have curriculum. It is there.

There is also a economist in the Buffalo area who went to the local school board and said, "I'd like to do this program. It's not going to cost you anything." He put it on the internet. He paid teachers like $125 to come for training, and then all the teachers said to the students is, "This is going to count toward 20 percent of your grade." So they all went on the internet and they went through this class that he had. So it didn't cost the school system anything, and he actually got funding to pay for the teachers to go for training.

So the curriculum is out there for people to be taught, and there are actually a lot of States that are beginning to require economics to be taught. I am not positive how much financial planning is in that, but it certainly is a possibility to get it. It is available. The curriculum is available lots of places.

The CHAIRMAN. Just an observation from my own family life. My daughter did reasonably well in school, and she is now a junior at Brigham Young University. She recently commented to me that, "You know, I took algebra all those years, and calculus and some other things." She just recently got married and she said, "It doesn't mean anything to me now."

I mean, I know it is good to learn for the sake of learning, but what she was saying is, "I wish I had had a class in just finance for daily life or business math, how to calculate interest, how to understand these policies that are coming in, and what compounding

interest, means and what is good and what isn't good." I just think our Nation ought to look at some fundamentals, and not denigrating these other math courses, but how about just basic business math?

Ms. ROLLINS. Well, and you might say that parents ought to be teaching their children.

The CHAIRMAN. Maybe the parents don't know.

Ms. ROLLINS. But the parents don't know it either. Sometimes I get interns, and I had one whose father is really pretty famous, and I said to her, "You tell your father to fund your IRA if you can't." So she went home and she said, "Dad, Lynn says you need to be funding my IRA." But if you teach your children about compound interest, if they start at—I mean, there is that story that if you fund your IRA from 18 to 26 and you never fund it again, you will be ahead of that person who starts at 26 and funds it the whole rest of their life, simply because of that last 7 years of compound interest. So we need, as soon as kids start making money, they need to be taught to put X amount of dollars away, to begin saving that money. Parents don't know, either.

So you could begin by teaching the whole Senate, and then go to the House, and they should go home to their constituents. My daughter is actually one of your constituents.

The CHAIRMAN. Oh, OK. Give her a hug for me, because I am not supposed to.

Ms. ROLLINS. You are not supposed to.

The CHAIRMAN. I won't.

Sara, I think I heard you say that defined contribution plans were in fact proving more beneficial to women. Is that true?

Ms. HART. Two things. First of all, a defined benefit plan, which is generally always paid out in the form of an annuity, does benefit women because they live longer. However, most defined benefit pension plans don't have COLAs, so the erosion of the purchasing power of that lifetime benefit is much more serious for women.

The CHAIRMAN. Don't they also tend to favor the fellows at the top?

Ms. HART. Absolutely not.

The CHAIRMAN. Absolutely.

Ms. HART. We have non-discrimination rules.

The CHAIRMAN. OK.

Ms. HART. As far as defined contribution plans, I think there is more opportunity for women who come in and out of the workforce, particularly because they can save—in a defined benefit plan the biggest part of the benefit is earned in your last 5 years of employment, so it does benefit people who stay in an employment situation for a career or a long period of time. Defined contribution plans are much more portable, and significant accounts can be built up by people who are in the work force for shorter periods of time.

The CHAIRMAN. Very good.

Senator Kohl.

Senator KOHL. Ms. Rollins, how much longer do you anticipate you are going to have to be in the work force in order to get the financial security you will need to retire, and how difficult will it

be for people like yourself to find that kind of work as time moves on in your life?

Ms. ROLLINS. Well, it is interesting you ask that question because I am out of a job at the end of this year because the Governor is out of office. So I will let you know next year if there is age discrimination in the workforce.

I would like to work, I am 63 years old now and I would like to work until I am 70. I am in really very good health, and I am hopeful that I will be able to find a job, but I am perfectly aware that there is age discrimination. So we will see what happens, but I will let you know soon, if you would like.

Senator KOHL. Thank you.

Ms. Hart, you mentioned in your testimony that women covered by employer plans will benefit from the shift to a 401(k) or a defined contribution plan arrangement. As you know, we need to get the most benefit for the buck with respect to the kinds of tax arrangements we make, and I was interested in your opinion on the Saver's Credit as an important provision to help lower income women save. Do you feel strongly about the Saver's Credit being a priority?

Ms. HART. Absolutely. The Saver's Credit is a huge priority and should be made permanent. The only problem with the Saver's Credit is like an earlier witness testified: People don't know about it, and if they don't know about it, they are not going to use it. So even though we try in our company to educate people, it needs a lot more attention and a lot more communication so people understand what the effects of the credit are for people. They essentially can save more. It is very important.

Senator KOHL. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Well, I appreciate so much you coming and sharing your advocacy and your recommendations and obviously, Lynn, your very heartwarming personal story. Each of you have added measurably to the Senate record today, and we hope those women listening in might take all the good advice that you have offered here today. Obviously Senator Kohl and I have work to do to make sure these things happen, and facilitate your jobs and your future and your advocacy.

So with that, we are adjourned.

[Whereupon, at 11:40 a.m., the committee was adjourned.]

# APPENDIX

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## PREPARED STATEMENT OF SENATOR MEL MARTINEZ

I would like to thank Chairman Smith and Ranking member Kohl for having this hearing. Planning for retirement is something that all Americans need to be engaged in, regardless of age. While there certainly are discrepancies in regards to earned income and retirement income between men and women, I think the focus of this hearing should also address a larger issue prevalent in both genders.

Americans simply do not save enough, for retirement or otherwise. Unfortunately the latest survey from the Financial Services Forum paints exactly that picture. The report released two weeks ago indicates that more than half of all Americans (52 percent) are worried about their retirement security.

The poll also indicates that they are worried for good reason:

Nearly a third of Americans saved nothing for retirement last year.

One out of four Americans in their peak earning years, and nearing retirement (age 50–65), saved nothing for retirement in the last year.

To add to this, last year was the first full year since the Depression that Americans spent more than they earned, for a negative savings rate.

So the question that needs to be asked is: Would Americans save more if the federal government streamlined the current abundance of tax breaks for saving? A report by the president's Advisory Panel on Federal Tax Reform suggests boiling all the current retirement plans into three simpler ones, all of which would be allowed to grow tax-free.

Another suggestion worthy of discussion is for the government to encourage employers to automatically enroll workers in 401(k) accounts and allow them to opt out if they choose. Studies have shown that automatic enrollment increases workers' savings amounts, especially among the younger and lower-income workers who are the least likely to save in the first place.

Last week this committee had a hearing regarding the importance of long term care planning, an issue that is often over looked when doing overall retirement planning. Long-term care is truly a women's issue. A typical scenario: A woman cares for her increasingly frail husband, eventually outliving him. She then needs care herself, but there's nobody to help and she ends up in a nursing home.

According to studies, people who spend years in a nursing home tend to be single, female, over age 80 and suffering from dementia. Their spouses have died and they don't have family support, so they are unable to live independently. This highlights the need to consider these scenarios while constructing an overall retirement plan and it is why I am a cosponsor of legislation, S 1706 by Senator Allen, that would allow individuals to use their 401(k), and 403(b) plans to purchase long-term care insurance with pretax dollars at any age and without early withdrawal penalty.

Under this legislation, the consumer has the option to purchase long-term care insurance at the most appropriate levels for their own needs and their spouses. Congress should also consider providing a tax credit to individuals who purchase long term care insurance, as Chairman Smith and others have proposed. I hope that both of these proposals as well as retirement security legislation will soon get consideration in the Finance committee.

All of these ideas need to be considered as we look for ways to increase personal saving while also addressing our complex tax code. I look forward to hearing the panelists hear today, and I ask that my remarks be included in the record. Thank you.

# Leaving Women Behind: Women as Retirees

By
Kimberley A. Strassel,
Celeste Colgan,
and
John C. Goodman

The history of institutions that affect the lives of the elderly follows a pattern. Our Social Security system, our estate tax system and our system for long-term care were designed at a time when they had a direct impact on only a small number of families. In 1940, the year Social Security issued its first benefit check, life expectancy at birth was 61.4 years for men and 65.7 years for women. The average male could expect to pay taxes over his entire work life and die 3.6 years before he qualified for benefits. The average female could expect to collect benefits for only a few months. Spending a long time in retirement was viewed as unusual in 1940.

With the passage of time, these programs (along with their defects) have come to affect an ever-increasing number of people. Today there are 35 million people over 65 years of age, or about one out of every eight people in the country. Although Medicare was designed at the outset (in the 1960s) for a large number of beneficiaries, its defects initially were minor and they grew to affect millions of seniors adversely only over time.

The most serious problem with public policies toward the elderly is that seniors are segregated from non-seniors, usually when they reach the age of 65. The government in effect sets up two categories of citizens. For example, once middle-income elderly start receiving Social Security, they begin to face tax rates higher than the rates paid by Michael Jordan and

Britney Spears. At about the same time, they are forced to withdraw from their private health insurance plan and join a government plan that is distinctly inferior to almost any plan non-seniors have. Seniors also have to deal with other institutions which, although not uniquely designed for the elderly, are fundamentally flawed and affect seniors more than non-seniors.

Because women live longer than men, issues of special importance to the elderly are more likely than not issues of special importance to women. Specifically:

- A tax on Social Security benefits is more often than not a tax on female retirees;
- An unfair estate tax is a tax that falls disproportionately on the estates of women;
- A defective Medicare program disadvantages more senior women than senior men; and
- An inadequate system of long-term care is a system whose inadequacies primarily burden women.

In what follows we will look briefly at each of these problems in turn.

**Problem: The Tax on Social Security Benefits.** In theory, Social Security is supposed to be a contract between government and the citizens. In return for taxes paid during a person's working years, government promises benefits during retirement. In the early years of the program, when revenues exceeded expenses, the federal government changed the contract by adding on new benefits and expanding old ones.[1] However, in recent years, as Social Security's financial prospects have darkened, the government has taken away benefits. For example, legislation passed in 1983 will gradually increase the retirement age from 65 to 67, beginning in

[1] For example, dependents and survivor's benefits were added in 1939; disability insurance benefits were added in 1956; early retirement benefits were added in 1961.

a few years. This change effectively takes benefits away from future Social Security retirees. Moreover, after 1983, the federal government began taxing 50 percent of Social Security benefits. After 1993, it began taxing 85 percent of benefits.[2] These taxes on benefits are simply a backdoor way of reducing benefits.

When the Social Security benefits tax was increased in 1993, the Clinton administration argued that the tax hike was needed in order to balance the budget and that only the wealthiest Americans would be affected. In retrospect, neither argument appears to be true:[3]

- Far from being a tax on the wealthy, the Social Security benefits tax hits senior citizens who are solidly middle class.
- For example, singles pay taxes on 50 percent of their benefits to the extent that their annual income exceeds $25,000, and couples pay the tax to the extent that their income exceeds $32,000.
- Seniors pay taxes on 85 percent of their benefits to the extent that their incomes exceed $34,000 (singles) or $44,000 (couples).

Moreover, these threshold income amounts are not indexed. So over time, more and more people will be subject to the tax as the result of inflation alone. When first imposed, the taxation of Social Security benefits affected less than 10 percent of beneficiaries. Today, it affects about one in five. By the time the children of the baby boomers retire, almost all of them will be paying tax on some portion of their benefits.

[2] Stephen J. Entin, "Reducing the Social Security Benefits Tax," National Center for Policy Analysis, NCPA Brief Analysis No. 332, August 10, 2000.

[3] Entin, "Reducing the Social Security Benefits Tax." Technically, these thresholds refer to "modified gross income," which is defined as all ordinary adjusted gross income, plus half of Social Security benefits, plus income from tax-exempt bonds.

*Taxing Investment Income.* Despite its name, the Social Security benefits tax is not a tax on benefits. Instead, it is a tax on other income: retirement pensions, IRA and 401(k) withdrawals. No tax is paid unless a taxpayer's income reaches a certain level. Beyond that point, seniors pay taxes on 50 cents of benefits for each $1 of income above the income thresholds. Thus when elderly taxpayers earn $1 they pay taxes on $1.50. That means their effective tax rate is 50 percent higher than otherwise. For example:

- Above the first income threshold, elderly taxpayers in the 15 percent income tax bracket pay an effective rate of 22.5 percent (15% x 1.5).
- Elderly taxpayers in the 28 percent tax bracket pay an effective rate of 42 percent (28% x 1.5).

Retirees with income over the second threshold must pay taxes on 85 cents of benefits for each $1 of income. When they earn $1, they must pay taxes on $1.85. Thus:

- Elderly taxpayers above the second income threshold face tax rates that are 85 percent higher than younger taxpayers with the same income.
- For example, if the retiree is in the 28 percent tax bracket, the effective marginal tax rate is 52 percent.

The Social Security benefits tax also produces other surprises. For example, it raises the tax rate on capital gains, and it even imposes a tax on "tax-exempt" income. In the case of tax-exempt bond income, a dollar of interest is not subject to tax, but it can make 85 cents of benefits taxable, triggering a tax of 24 cents on 85 cents of benefits if the taxpayer is in the 28 percent bracket. That means seniors must pay an effective tax rate of 24 percent on the supposedly tax-exempt earnings! A dollar of capital gains is taxed at the maximum rate of 20 percent. But

because that dollar makes 85 cents of benefits taxable at, say, the 28 percent rate, the total effective tax rate on capital gains is 44 percent![4] [See Figure I.]

*Taxing Wages.* If the beneficiary is in the labor market, the effective tax rate is even higher. For a couple age 65 or over in the 28 percent income tax bracket, adding the payroll tax and the Social Security benefits tax can push their marginal tax rate as high as 64 percent.

The results are even worse if a beneficiary is subject to the Social Security earnings test. In general, beneficiaries who are past the normal Social Security retirement age of 65 can earn an unlimited amount of wage income without any loss of Social Security benefits. However, a heavy penalty remains in effect for retirees age 62 to 64 who choose to "retire" early and collect reduced Social Security benefits. A beneficiary in this age range loses $1 in benefits for every $2 in wage and salary income over the exempt amount ($25,000 in 2001). This is equivalent to a 50 percent tax rate. When the earnings penalty is added to other taxes, seniors can actually end up paying more in extra taxes than they earn in wages — a tax rate exceeding 100 percent! In this case, seniors literally have to pay the government for the privilege of working. As Figure II shows, even beneficiaries in the 15 percent income tax bracket can face a marginal tax rate of 83 percent.

*Benefits Tax Trap.* By and large, the Social Security benefits tax is one of the most complicated and least understood provisions in the tax code. But its effects are devastating, and they are not just limited to seniors. As we saw in the overview, "Women and Retirement Assets" many young people are depositing funds in "tax-favored" accounts on the theory that deferring taxes to their retirement years is a good financial decision. However, many of these young people are in fact shifting the payment of taxes to the time in their life when they will face the

[4] Ibid.

highest tax rates. The tax on Social Security benefits—confusing and misunderstood—serves to give credence to the view that the government imposes unfair, if not sinister, requirements on older Americans.

Is there a better way? Yes. Social Security benefits could be treated as ordinary income. The argument for taxing Social Security benefits is that the beneficiaries paid for only a small portion of their benefits through payroll taxes.[5] If the argument is accepted, it is reasonable to include a portion of Social Security benefits in their ordinary income, taxable at the same marginal tax rates as younger taxpayers. Exemptions could be raised to prevent undue hardship for the low-income elderly without increasing marginal tax rates.

**Problem: The Estate Tax.**[6] The estate tax (or as some call it, the "death tax") raises a miniscule amount of money for the federal government — only 1.5 percent of federal revenues. Considering its negative effects on economic activity, some experts believe that if the tax were abolished there would be no net loss of federal revenues.[7] Yet the tax is a significant burden for many families. In fact, the United States has the second highest estate tax rates in the world:[8]

- Although in 2003the first $1,000,000 of an estate is effectively exempt from the tax, for amounts above that threshold the tax rate is 49 percent.

[5] Note, however, that today's young people will pay more in Social Security taxes than they will ever receive in benefits. See Laurence J. Kotlikoff, "Privatizing Social Security," National Center for Policy Analysis, NCPA Policy Report No. 217, July 1998.

[6] This section is largely based on Bruce Bartlett, "Wealth, Mobility, Inheritance and the Estate Tax," National Center for Policy Analysis, NCPA Policy Report No. 235, July 2000.

[7] Richard F. Fullenbaum and Mariana A. McNeil, *The Effects of the Federal Estate and Gift Tax on the Aggregate Economy*, Working Paper No. 98-01 (Washington: Research Institute for Small and Emerging Business, 1998).

[8] Bartlett, "Wealth, Mobility, Inheritance and the Estate Tax," p. 10. Only Japan has higher estate taxes than the United States

- On estates between $10 million and $21 million, the statutory rate is 55 percent and the actual effective tax rate is 60 percent.
- And these rates apply to wealth that was already taxed once — when it was earned.

Many support these draconian tax rates because they believe the estate tax only affects the rich. But this notion is wrong. The tax is not on the giver, but on the beneficiary of the estate, who may or may not be wealthy. Generally the tax falls on people with modest means, while those families who have been wealthy for generations avoid it. More than half of all estate tax revenue comes from estates under $5 million, and one study estimates that two-thirds of the wealth of the nation's richest families goes untaxed.[9] The reason for this disparity is that careful estate planning can virtually eliminate the tax. There are a number of increasingly complex methods for reducing the burden of the estate tax. So effective are these methods of avoiding estate taxes that it has been argued that the estate tax essentially is a voluntary tax.

Figure III shows that the tax rate paid by estates over $20 million is actually lower than the tax paid by, say, an estate of only $3 or $4 million. This discrepancy would be even worse if the wealthier estates had planned better. According to Columbia University economist George Cooper, "The fact that any substantial amount of tax is now being collected can be attributed only to taxpayer indifference to avoidance opportunities or a lack of aggressiveness on the part of estate planners in exploiting the loopholes that exist."[10] According to Brookings Institution

[9] Martin A. Sullivan, "For Richest Americans, Two-Thirds of Wealth Escapes Estate Tax," Tax Notes, Vol. 87, April 17, 2000, pp. 328-33.

[10] George Cooper, "A Voluntary Tax? New Perspectives on Sophisticated Estate Tax Avoidance" (Washington: Brookings Institution, 1979), p. 4.

economists Henry Aaron and Alicia Munnell, estate taxes aren't even taxes at all, but "penalties imposed on those who neglect to plan ahead or who retain unskilled estate planners."[11]

In general, those with the largest estates have the greatest ability to engage in estate planning. This is because many estate planning techniques are costly and require long lead times to implement. Families with long histories of wealth are more likely to be familiar with them. Thus a disproportionate burden of the estate tax often falls on those with recently acquired, modest wealth: emerging entrepreneurs, many of whom are minorities, farmers and owners of small businesses. Another mistaken notion is that the estate tax prevents large fortunes from being passed from generation to generation, thereby making the distribution of wealth more equal. Yet, as Figure IV shows, very few of the assets of the wealthiest Americans actually come from inheritance.

Perhaps the worst feature of the estate tax is its fundamental unfairness. Money that is saved and invested has already been taxed once — when it was earned. If invested in a business, say, it will be taxed several more times — through the corporate income tax, the personal income tax on dividends and interest income and through the capital gains tax when shares of stock in the company are sold. The estate tax — by which the government at least nominally tries to seize more than half of what's left — is simply one more unjustifiable burden on those who saved and invested instead of consuming everything they earned during their lifetime.

The Bush tax cut of 2001 grants some relief. The top estate tax rate will fall from 49 percent in 2003 to 48 percent in 2004, and gradually decline to 45 percent by 2009. Then in the

[11] Henry J. Aaron and Alicia H. Munnell, "Reassessing the Role for Wealth Transfer Taxes," National Tax Journal, Vol. 45, June 1992, p. 130.

year 2010, the estate tax is completely repealed. However, in 2011 the estate tax will be completely reinstated, reverting to 55%. . Clearly, more needs to be done.

**Problem: Defects in Medicare**. Despite its political popularity, Medicare violates almost all principles of sound insurance. It pays too many small bills the elderly could easily afford on their own, while leaving them exposed to thousands of dollars of potential out-of-pocket expenses, including the cost of most of their drugs. Each year about 750,000 Medicare beneficiaries spend more than $5,000 out-of-pocket.[12]

These problems are rooted in the design of the program. Medicare was structured as a stand-alone program separate from any other health plan. This fact did not make much difference in the early years because Medicare's benefit structure largely copied that of a standard Blue Cross Blue Shield plan. As time passed, Blue Cross and other private insurers changed their policies, adapting to realities of modern medicine. But because Medicare was a creature of politics, special interest pressures thwarted its evolution and improvement, until the result is a program that is far inferior to the insurance plan most non-seniors have.

To prevent financial devastation from medical expenses, about two-thirds of Medicare beneficiaries acquire supplemental insurance, either through a former employer or by direct purchase. Although some of these "Medigap" policies cover prescriptions, most do not, and among those that do, coverage is often incomplete. Ironically, the poorest seniors often have the best drug coverage because they qualify for Medicaid, the federal-state health program for the poor.

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[12] *Health Care Financing Review: Medicare and Medicaid Statistical Supplement*, 1999, HCFA Pub. No. 03417, November 1999.

Where prescription drug coverage is incomplete or nonexistent, doctors and patients may turn to more expensive therapies because Medicare will pay the bills — for example, opting for surgery for heart disease instead of treating it with drugs. On the other hand, combining two separate health plans causes a different kind of waste and inefficiency. Health economists estimate that seniors with both Medicare and Medigap insurance spend about 30 percent more on health care than those with Medicare alone.[13]

Some propose creating a third plan (an addition to Medicare) with a separate premium to cover drugs. For most seniors, this would mean three premiums for three plans. But this approach would merely compound the problems with the current system. What is needed is not three premiums for three plans, but one premium for one plan — a plan similar to the health coverage non-seniors have.

The elderly could have better health care coverage — including a prescription drug benefit — if they were allowed to combine their Medicare funds with the money they currently spend on private insurance and pay one premium into a comprehensive private plan. Add the amount that Medicare will spend on the average beneficiary each year to the amount seniors are already paying for the most popular Medigap policy, and the combined sum should be enough to buy the same kinds of health insurance coverage the non-elderly now have, including prescription drug coverage. That is the conclusion of a study prepared for the National Center

[13] Sandra Christensen and Judy Shinogle, "Effects of Supplemental Coverage on Use of Service by Medicare Enrollees," *Health Care Financing Review*, Fall 1997. Most studies find the increased spending is due to the perverse incentives of insurance and not because the patients were sicker. For a discussion, see Susan L. Ettner, "Adverse Selection and the Purchase of Medigap Insurance by the Elderly," *Journal of Health Economics*, Vol. 16, No. 5, October 1, 1997, pp. 543-62; and Michael D. Hurd and Kathleen McGarry, "Medical Insurance and the Use of Health Care Services by Elderly," *Journal of Health Economics*, Vol. 16, No. 2, April 1997, pp. 129-54.

for Policy Analysis by Milliman & Robertson, Inc., the nation's leading actuarial firm on health benefits.[14]

Congress thought it was allowing seniors to use their Medicare money to join private health plans when it passed Medicare+Choice in 1997. The program was supposed to give the elderly the full range of health insurance options currently available to non-seniors: HMOs, MSAs, fee-for-service plans, doctor-run plans, etc. However, the Health Care Financing Administration (HCFA), which regulates Medicare, has behaved as if it were hostile to private insurance, hostile to competition and hostile to choice. As a consequence, the program is saddled with so many rules, regulations and constraints that seniors have few of the options originally promised. For example:

- Only 11 percent of Medicare beneficiaries are enrolled in Medicare+Choice plans, down from its peak of 16 percent in 1999.[15]
- Since January 2001, around 1.6 million Medicare beneficiaries lost coverage.[16]
- Approximately 6 percent (309,000) of the 5 million Medicare beneficiaries enrolled in January 2003 lost coverage within the first eight months of the year.[17]

We cannot solve the problem of prescription drug coverage for the elderly without addressing the structural problems of Medicare. Structural reform can be accomplished by building on the Medicare+Choice program that is already in place.

[14] Mark E. Litow, "Defined Contributions as an Option in Medicare," National Center for Policy Analysis, Policy Report No. 231, February 2000. This report is summarized in John C. Goodman and Sean R. Tuffnell, "Prescription Drugs and Medicare Reform," National Center for Policy Analysis, NCPA Brief Analysis No. 314, March 16, 2000.

[15] Howard Gleckman, "Commentary: This Medicare Reform Is No Cure," *Business Week*, July 14, 2003.

[16] "MMCC Monthly Summary Report," Medicare Managed Care Plans, Centers for Medicare and Medicaid Services, various dates.

[17] Ibid.

**Problem: Long Term Care.** The problem of long-term care in the United States is a train wreck waiting to happen.[18] The prospect of entering a nursing home is the single most significant catastrophic health care expense faced by the elderly. On the average:[19]

- Elderly persons have a 43 percent chance of entering a nursing home during their lifetimes.
- Nine percent of seniors can expect to spend five years or more in a nursing home.

Once in a nursing home, elderly patients face staggering costs. Because of federal fire, health and safety regulations, a nursing home today can withstand fires, storms and other disasters that would devastate most deluxe hotels. These regulations have increased the cost of nursing homes to the point where the average stay now runs about $66,000 per year.[20]

How are these costs born? One would think that Medicare, the program designed to provide health care to the elderly, would be a significant player in long-term care for the elderly. But no. The vast majority of nursing home expenses are met either by Medicaid or through out-of-pocket expenditures by the elderly.[21] Medicare pays for less than two percent of these costs. Private insurance pays for less than one percent. As a result, long-term residents of nursing homes tend to fall into one of two categories: either they are relatively wealthy or they are very poor (or soon to be poor). It is significant that half of nursing home residents covered by Medicaid did not quality for Medicaid upon entering a nursing home. These residents qualified for Medicaid by exhausting their financial resources and becoming "poor."

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[18] "The Myth of Unaffordability: How Most Americans Should, Could, and Would Buy Private Long-Term Care Insurance," Center for Long-Term Care Financing, September 1, 1999.

[19] Ibid.

[20] MetLife, "The MetLife Market Survey of Nursing Home and Home Care Costs," MetLife, August 2003.

[21] "LTC Choice: A Simple, Cost-Free Solution to the Long-Term Care Financing Puzzle," Center for Long-Term Care Financing, September 1, 1998.

For the future, things will only get worse. For every elderly person in a nursing home there are two more *equally disabled* patients who are not in nursing homes. Yet expanding Medicare coverage to include nursing home care threatens to be enormously expensive:

- If every elderly person spent just one year in a nursing home, the cost would be around $2 trillion.
- This figure is almost the size of the federal budget and almost 50 percent more than the entire amount currently spent on health care in the United States each year.[22]

The problem with public policy pertaining to elderly health care is that the federal government does virtually nothing to encourage people to deal with the problem on their own. Currently, people cannot deduct the cost of long-term care insurance premiums. Nor do they have a general right to contribute to Medical Savings Accounts that grow over time and provide a source of funds for long-term care. President Bush has proposed tax incentives to help families meet their own long-term care needs and provide care for elderly family members. But much more needs to be done.[23]

Another problem is that elderly entitlement programs tend to be very compartmentalized. Senior citizens have well-designed benefit rights, for example, under Social Security, Medicare and Medicaid. But in general one program can't be used to obtain benefits another program was designed to provide. With limited exceptions, Medicare funds cannot be used for long-term care

[22] $2 trillion is 31 million Medicare enrollees times an average cost of $66,000 per year for a nursing home stay. "Nursing Home Costs Average $181 Per Day in U.S.," MetLife, August 5, 2003.

[23] Bush supported a tax exemption of $3,000 in 2002 for persons who take care of parents or children needing long-term assistance, allowing taxpayers to deduct 100 percent of the cost of private long-term care insurance and the expansion of medical savings accounts. See Richard L. Clarke, "It's Bush. Now What?" *Health Care Financial Management*, January 2001; and "Fact Sheet: President Outlines Agenda for Improving Health Security in the Best Health Care System in the World," Office of the Press Secretary, The White House, February 11, 2002.

and they cannot be used at all for ordinary living expenses. Similarly, Medicaid (long-term care) funds cannot in general be used for Medicaid care or for home living.

Notice how different the federal government's approach is from the approach now preferred by many seniors. The idea behind "assisted living" communities is that living expenses, health care expenses and long term care expenses need to be integrated, not compartmentalized. Seniors in these communities usually have onsite access to primary care. And as they age, they can take advantage of increased levels of "assistance." To 7.5 million Americans with functional limitations over the age of 65, access to personal assistance services is a key lifestyle issue. In response to the demand, assisted living communities are cropping up all over the country. They are the wave of the future. By contrast, our federal programs have been captured by the past.[24]

As with other issues we have examined, the failures of public policy affect men as well as women. But because women live longer than men, they are more likely to experience the defects of Medicare and Medicaid, including gaps in coverage and arbitrary restrictions. And because women are often the primary caregivers in families, they are more likely to bear the burden when Medicare or Medicaid fails to meet the needs of a senior parent.

Many changes are needed to bring aging institutions into sync with the way people live their lives in the 21st century. Women in our society are capable of making their own choices and living productive, satisfying lives, provided that public policies do not hold them back.

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[24] Most funded long-term care services in this country are provided by Medicaid under the "medical model," where physicians and nurses supervise health care workers providing medical services. However, consumer-directed personal assistance services is growing in popularity under what is known as the "independent living model" of long-term care. See Andrew I. Batavia, "A Right to Personal Assistance Services: 'Most Integrated Setting Appropriate' Requirements and the Independent Living Model of Long-Term Care." *American Journal of Law & Medicine*, Spring 2001; and Keren Brown Wilson, "An Aging America Faces the Assisted Living Alternative," USA Today (Magazine), March 2000.

**American Council of Life Insurers (ACLI)**

**Statement for the Record**

**Women and Retirement Security**

**Senate Special Committee on Aging**

**United States Congress**

**March 15, 2006**



101 CONSTITUTION AVENUE, NW, Suite 700, WASHINGTON, DC 20001-2133
Telephone: 206-624-2000

The American Council of Life Insurers (ACLI) is delighted that this Committee is shining a spotlight on the issues women face in achieving retirement security through the hearing process. We applaud Chairman Smith (R-OR) and Ranking Member Kohl (D-WI) for drawing attention to the matter and we are pleased to submit this statement for the record outlining the available tools women may utilize to fulfill their goal of retirement security.

The ACLI is a Washington, DC – based trade association whose 377 member companies account for 91 percent of the life insurance industry's total assets in the United States, 90 percent of life insurance premiums and 96 percent of annuity considerations. In addition to life insurance and annuities, ACLI member companies offer pensions, including 401(k)s, long-term care insurance, disability income insurance and other retirement and financial protection products, as well as reinsurance. Life insurers are among the country's leaders in providing retirement security to Americans.

**Women and Retirement Security**

Women benefit from having financial protection and security for themselves and their families because they live longer than men and have lower earnings and savings over their lifetimes. But with the changing nature of retirement and declining personal savings, they face an increasing number of risks. Whether it's the financial costs from dying, becoming disabled, having inadequate—or outliving—savings in retirement, most women do not have the resources to manage risk on their own.

Employer-provided and individually purchased protection and security products have long provided women with the tools they need not only to save, but to manage life's risks. These products are unique in their ability to successfully and affordably transfer risk from the individual to a larger pool of savers or insureds.

**Women and Life Insurance**

Life insurance offers peace of mind through immediate financial protection for families and dependents. It enables individuals and families from all economic brackets to maintain independence in the face of financial catastrophe, helping relieve pressure on government entitlement programs. Whether a woman is part of a dual- or single-income household, life insurance can ease the financial burden placed on a family after an unexpected death—helping to pay such expenses as funeral costs, child care, mortgage payments, and tuition.

Despite the importance of life insurance protection, studies show that women are less likely to own life insurance. According to LIMRA International's *Trends in Life Insurance Ownership Among Americans*, almost one in three women have no life insurance coverage. Of the women who have life insurance protection, the average coverage is only 62 percent of the average coverage for men: $118,600 versus $190,000. LIMRA also notes that married households are less likely to buy individual life coverage for wives than for husbands.

Life insurance should not just be a consideration for married women. U.S. Census data show that of the 16.4 million American homes run by single parents, 12.9 million are run solely by women. Life insurance provides the critical financial protection to secure the futures of the dependents of these single-parent households.

It is important to educate all women about the critical role life insurance plays in helping families effectively manage risk and prepare for long-term financial needs. By providing tools for self-protection and savings, life insurance is an efficient way to promote personal responsibly and foster less dependence on government programs.

**Women and Long-term Care Insurance**

Long-term care insurance offers critical protection against the risk of depleting savings to pay for needed care and becoming a financial burden. It is a crucial component of retirement planning. It protects retirement savings from being depleted by the steadily growing costs of long-term care, and provides consumers with the dignity of choice by covering a wide range of services in a variety of settings.

Long-term care is a significant issue for women. Women are more likely than men to take time away from the workforce to care for aging parents and loved ones. According to a recent study from Rice University, women who are caregivers to elderly parents are more than twice as likely to live in poverty after retirement than women who are not caregivers. Minority women and single women of all races fare much worse. In addition, because women live longer than men by several years, they are more likely to need long-term care themselves. In fact, a 65 year-old woman has a 50 percent chance of needing nursing-home care in her lifetime; a 65 year-old man has a 30 percent likelihood of needing such care.

With the increasing cost of care, total spending on nursing home care is expected to more than triple over the next 25 years and to increase more than five-fold in the next 45 years. These increases will place heavy burdens on government programs, and ultimately on taxpayers. Policy-makers should continue to encourage women to plan ahead and consider long-term care insurance as a means for providing for their long-term care needs, protecting their retirement savings, and providing them with independent choices.

Since its introduction to the marketplace, long-term care insurance has evolved – plans now cover a variety of services that help women receive care inside or outside the home. Today's policies also handle the multifaceted challenges of family caregivers, from easing physical and emotional stress to reducing job disruptions. Hybrid products that link long-term care coverage with life insurance or annuities offer additional options to meet a wide array of financial needs.

Long-term care is available on an individual basis, or through a group plan sponsored by an employer or association. An increasing number of group employers – including the federal government and more than 20 state governments – recognize the importance of long-term care insurance in retirement planning and offer it as part of their employee-benefit packages.

**Women and Retirement Savings**

Many working women Americans have access to retirement savings vehicles designed to help them to prepare for retirement. These vehicles include employer-provided retirement plans, such as traditional, defined benefit pensions, profit-sharing plans, and defined contribution plans, including 401(k)s, 403(b)s, and 457s. For workers without access to workplace plans or for those who want to supplement savings, there are individual retirement accounts (IRAs).

Unfortunately, more needs to be done to encourage women's participation and coverage in the retirement system. Forty-four percent of women are not covered by a qualified plan, compared to 36 percent of men. Coverage is low for women not only because of their lower levels of workforce participation, but also because they are more likely to be self-employed or employed by small businesses that do not sponsor plans. Policy-makers should continue to encourage women to participate in the retirement system and encourage employers to expand plan coverage.

Providing access to professional investment advice and investment education would help women make better investment decisions and save more. According to recent studies (Dreyfus Corp., National Center for Women and Retirement Research, Mutual Fund Education Alliance), women tend avoid making investment decisions, invest too conservatively, and save less than men.

Whether covered by an employer-sponsored plan or not, encouraging women to take their retirement accumulations in the form of a guaranteed lifetime benefit payment – through an annuity -- would help them achieve retirement income security. Because women tend to live longer than men, lifetime payments are particularly important.

**Women and Annuities**

Retirement today requires more planning than in previous generations. As mentioned in the previous section, women are less likely to have access to retirement plans in the workforce because they are more likely to be self-employed to employed by small businesses that do not sponsor plans. For those women who do have access to employer-sponsored plans, sources of steady retirement income have changed as fewer and fewer workers are covered by traditional employer-provided pensions that provide a lifetime benefit. In addition, advances in medicine have resulted in increased longevity—today's retirees may spend 20, 30 or more years in retirement. Because women live longer than men, they are likely to spend more years in retirement and are at risk for outliving their savings.

For women, preparing for retirement is no easy task. Women have a lifetime of lower earnings, so their retirement income is lower, including pension benefits, 401(k) distributions, and Social Security payments. Women earn on average $.76 for every dollar earned by men, and and are more likely to take time away from the workforce to care for children or aging parents. In fact, they spend on average 32 years in the workforce compared to the 44 years spent by men. Only eighteen percent of women age 65 or older were receiving their own pension benefits in 2000 – either as a retired worker or survivor – compared to 31 percent of men.

In addition to lower earnings and lower retirement income, women face another challenge: making the assets they do have last as long as they live. On average, women live five to seven years longer than men and, if married, are more likely to become widowed. Pension coverage is low for women not only because of their lower levels of workforce participation, but also because they are

more likely to be self-employed or employed by small businesses that do not sponsor plans, another obstacle in achieving secure retirement.

Because most women live twenty-thirty years in retirement, some of them alone, the need to encourage women to turn their retirement savings into a steady stream of income for life, through an annuity, is critical. Other than Social Security and the defined benefit system, the only means to create a guaranteed income stream in retirement is through an annuity. An annuity is an insurance contract that offers an efficient solution to what otherwise could be an overwhelming asset management task: creating a steady paycheck in retirement that cannot be outlived. To accomplish this goal, women nearing retirement should be encouraged to convert a portion of their workplace retirement savings into an annuity.

An annuity also can help women without access to workplace retirement savings plans to independently accumulate savings during their working years and then turn savings into a steady, guaranteed income stream in retirement.

**Women and Disability Income Insurance**

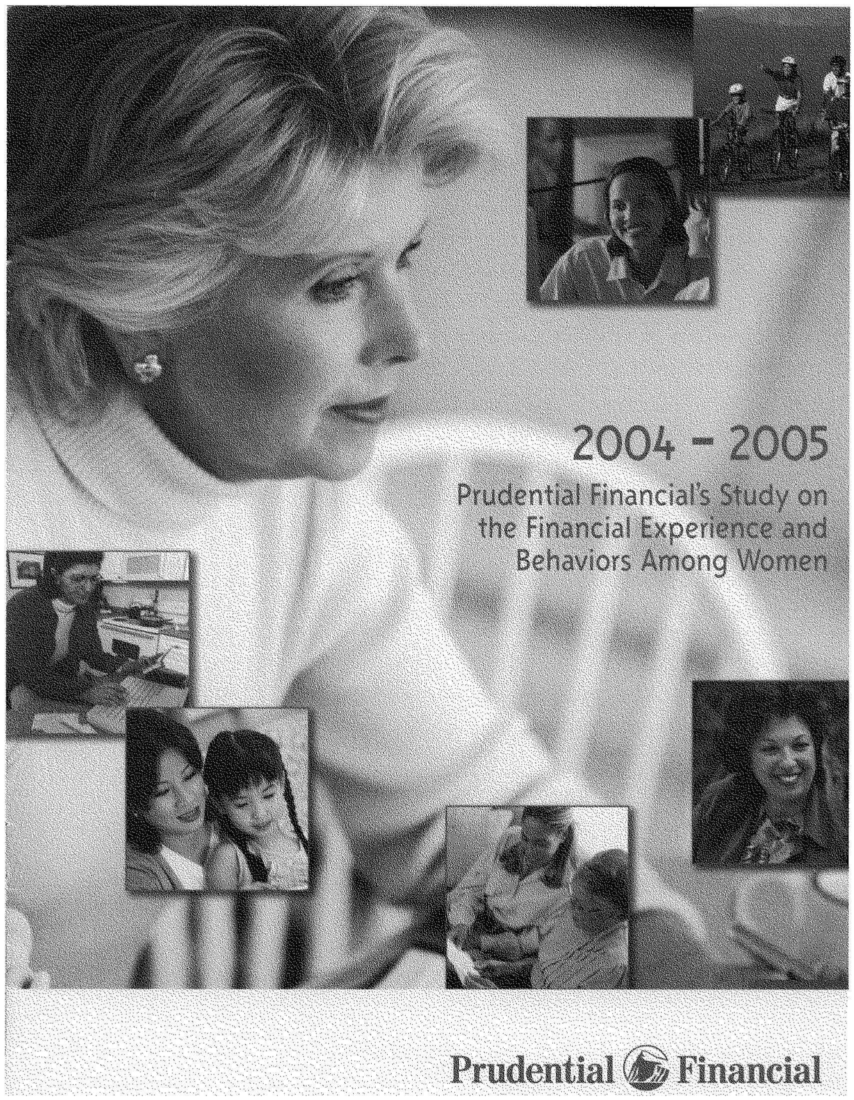
As women live longer, work longer and assume more financial obligations – such as funding education and parental care, in addition to savings for retirement – it is important to foster education about how long-term disability income insurance can help them continue to support their families, maintain their independence, and avoid depleting their long-term savings for retirement should a disabling event occur. Women between the ages of 16 and 64 are at greatest risk of suffering from a disability.

Through disability income insurance, working women and their families can ensure bills are paid and that long-term savings for college and retirement are protected if a disabling event occurs. It also can pay for training or other assistance to help one return to work. Disability income insurance can be purchased on an individual basis and is increasingly available as part of an employee benefit package in the workplace.

**Personal Financial Protection is the Key for Women to Achieve Retirement Security**

In conclusion, as women live longer lives and assume a greater role in providing resources for their families, they must equip themselves with the tools that allow them to protect their family's income and savings through life insurance, long-term care insurance, retirement savings vehicles, an

annuity's guaranteed lifetime income for life, and disability income insurance. By utilizing these tools as part of a sound financial retirement planning, women will be more confident about their retirement years.


2004 - 2005
Prudential Financial's Study on
the Financial Experience and
Behaviors Among Women
Prudential Financial

***Acknowledgement***

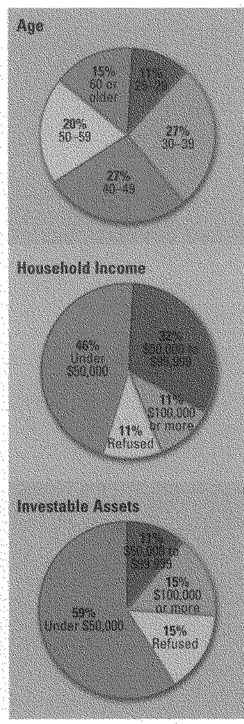
*Research has shown that, during the past four years, women have made some positive progress toward understanding financial issues and securing their financial independence. This study—the third in a series about the financial experience and behaviors of women—indicates continued progress. But it also reveals just how much more work needs to be done.*

*Prudential Financial is committed to understanding the unique financial needs and issues of women, and the company is resolute about creating the solutions to help women grow and protect their wealth.*

*Please take time to learn from this study and, more importantly, take action.*

# American Women Face Their Financial Challenges

### Profile of Study Participants




American women are taking on more personal and household financial responsibilities. Nearly 1 in 3 find themselves more involved in financial decisions than they were five years ago. In addition, the majority feel these financial decisions are more complex decisions than in the past.

American women have clear priorities relating to their financial goals. Women want financial security during retirement and want to avoid becoming a potential burden to others. Yet their outlook for achieving these goals is shrouded in uncertainty.

Prudential Financial's study on the *Financial Experience and Behaviors Among Women* is the third in a series. The study reveals women are prepared to take action, possibly corrective action, to achieve financial security during their later years.

## About the Study

Prudential Financial's study on the *Financial Experience and Behaviors Among Women* polled 1,134 American women about their financial knowledge, goals, actions taken and confidence in attaining financial goals. The survey was administered from February 5 to 16, 2004. The margin of error is ±2.9% at a 95% confidence level.

Respondents are panelists in the Harris Interactive Poll Online. Known characteristics of panel members (such as gender, age, income) were used to select individuals to participate in this online survey.

The study of participants is a national sample of female sole and joint heads of households born between 1936 and 1979 (ages 25 to 68) and who use the Internet. This age criterion is broader than the age requirement for the 2000 and 2002 samples. The prior studies sampled "Baby Boom" women born between 1946 and 1965. Where indicated, comparison data from the 2004 sample was narrowed to match the age group of the previous years' samples.

*Study on the* Financial Experience and Behaviors Among Women, *September 2000, February 2002 and February 2004.*

# At the Doorstep of Change

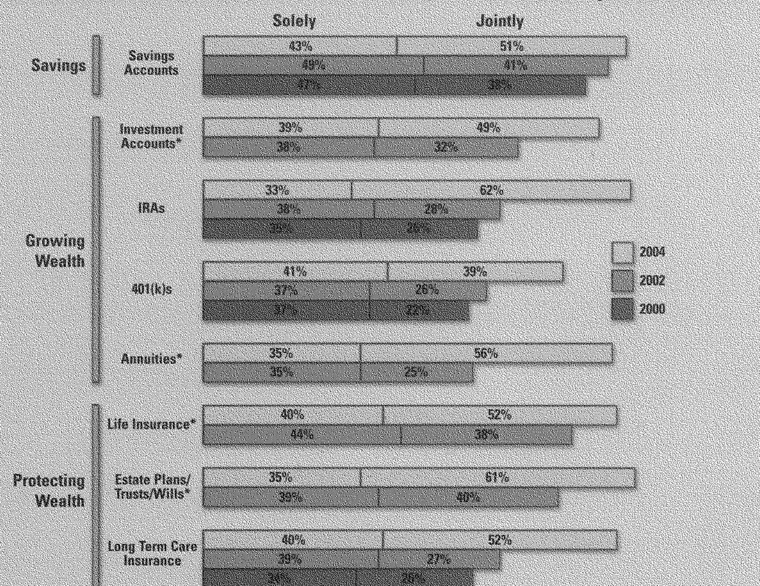
Since the first study in 2000, American women's involvement in financial decisions has grown greatly.

In traditional households a generation ago, women managed budgets and savings accounts. Today, women provide input to an expanded array of financial products and services that include more complex issues such as long term care and estate planning.

Women are involved in multiple facets of their household's financial well-being. Their involvement has grown in areas that pertain to longer term asset accumulation—specifically for retirement products such as IRAs, 401(k) and annuities. This year's study revealed that about 9 in 10 women participate in decisions that could affect their household's retirement and investment accounts.

Women also influence household decisions regarding estate plans, trusts, wills and long term care insurance—products designed to protect the wealth accumulated over the years.

## % of Baby Boom Women Who Are Solely or Jointly Responsible for...




*Note: For comparison consistency, these questions were asked of women ages 39 to 58 which is equivalent to the 2002 Women's "Baby Boomer" sample.*

**Not asked in the 2000 Study.*

# Financial Independence and Security Lead the List

Baby Boom women allocate 47 out of 100 points to specific goals that are related to their retirement security.

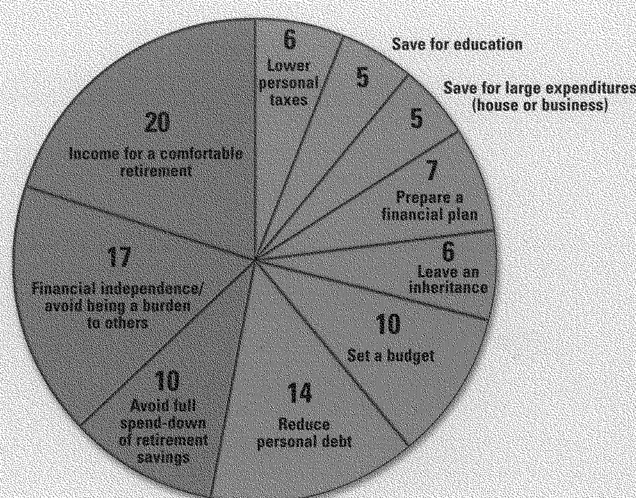
Having enough income for a comfortable retirement, not spending all the savings and avoiding becoming a burden to others are all important retirement goals.

We are living in an era of increased longevity, higher healthcare costs (particularly assisted living) and a weakening Social Security system.

As a result, women recognize they will bear a greater financial responsibility for securing their retirement than did the generations before them.

However, in addition to retirement, there are several other financial goals that are important to women. Controlling expenses (30 points) by reducing debt, lowering personal taxes, and setting a budget are additional priorities for women currently.

## Importance of Financial Goals to Baby Boom Women 100-Point Allocation[1]




*[1]Respondents allocated 100 points across 10 financial goals to indicate the relative importance of each one. More points were assigned to relatively more important issues, and fewer or no points to less important issues. The chart above displays the average number of points assigned to each financial goal.*

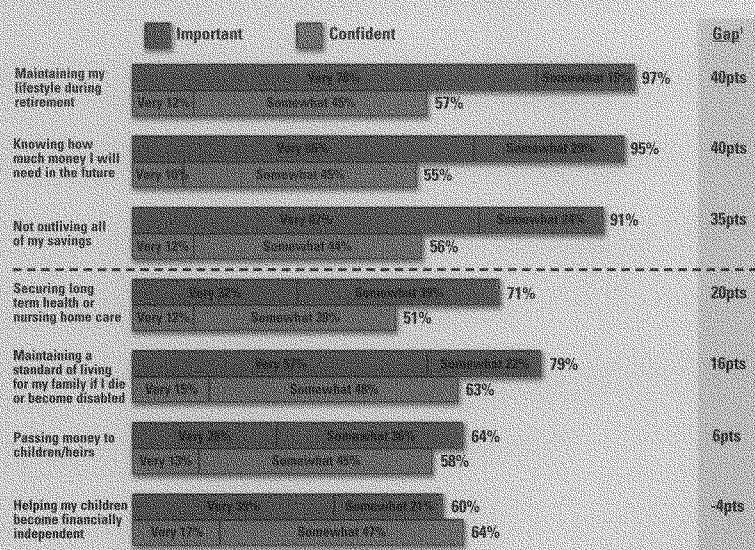
# Golden Years: a Financial Challenge

**The Retirement Gap Must Be Closed.**
For retirement-related goals, women's "Confidence Gap" is large. More than 90% feel a comfortable retirement is important, yet many are not confident they are prepared to meet their goals.

A 66-point gap reveals how insecure women are about achieving their "very important" (78%) goal of "maintaining my lifestyle during retirement." That so few feel "very confident" is alarming.

**40% to 50% Are Not Confident at All!**
Among the seven major financial goals, 40% to 50% of women are *not* confident they have sufficiently prepared to meet their objectives. As we all age, taking control of our financial future is very important to both the success of individual families, but also the economic well-being of the country, overall.

## Importance of and Confidence in Achieving Financial Goals




*[1]Gap – represents the percentage point difference between the importance ("very/somewhat") of a financial goal and the confidence ("very/somewhat") women have for achieving the goal.*

*Note: This chart is based on the total sample of women ages 25 to 68.*

5

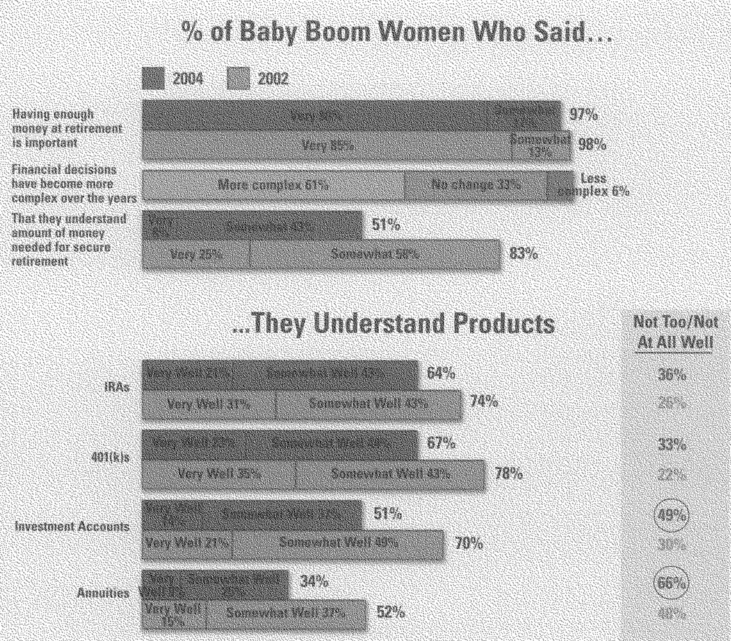
# Unsure How Much Money It Will Take

"Having enough money at retirement" continues to be a top financial goal for virtually all Baby Boom women. Yet incredibly, only 8% are "very" sure of how much money they will need in retirement! And almost half, 49%, do not even have estimates.

Sixty-one percent report financial decisions have become more complex. Several factors contribute to this rise in complexity—the recent volatile and uncertain stock market, decisions in the workplace involving family benefits and retirement savings, helping children or parents manage their own financial challenges, and managing the rising cost of healthcare and nursing care.

Bear market conditions prevailed during 2002 and the first half of 2003. Undoubtedly, many Baby Boom women saw their retirement assets decline during this period. The jolt these women experienced in their retirement portfolios may have shaken some of their confidence and called into question their understanding of financial products.

Compared to the 2002 study, fewer Baby Boom women in 2004 say they understand retirement products "very" or "somewhat well." With half not understanding investments and two-thirds not understanding annuities, important educational and informational work is needed.




*Note: For comparison consistency, these questions were asked of women ages 39 to 58 which is equivalent to the 2002 Women's "Baby Boomer" sample.*

# Help Wanted: Women Want Education

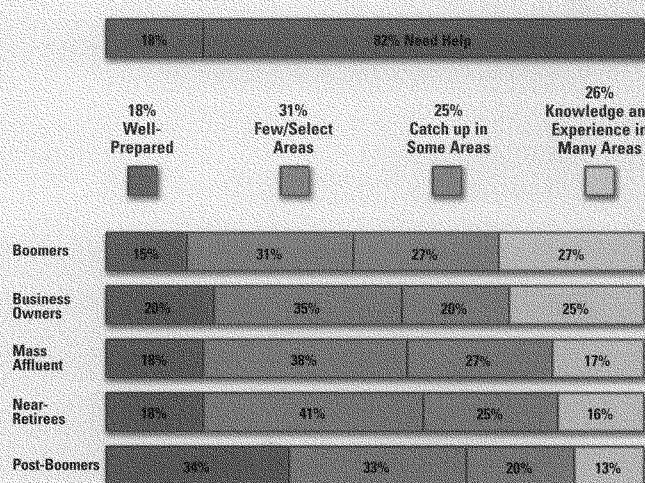
Overall, 8 in 10 women (82%) acknowledge they could potentially improve their financial outlook by seeking guidance and counsel. Twenty-six percent need help in almost all areas of financial education, including products and issues.

By their own assessment, women believe they should acquire or refresh their knowledge of personal financial issues. This is a common sentiment across all economic and generational strata.

About 1 in 4 Baby Boom women and women business owners believe they would benefit from exposure to an educational program or to a financial advisory relationship. Preparing for a secure financial tomorrow has taken a backseat to the demands of managing careers, families and running their own businesses.

A slightly higher percentage (34%) of Post-Baby Boom women, age 25 to 38 years, however, are confident in their abilities to manage their financial affairs.

## % of Women Feeling Prepared to Handle Their Financial Decisions




**Segment Definitions**
***Boomers:*** *Born between 1946 and 1965. Ages 39 to 58 years.*
***Business Owners:*** *Self-employed or own 50%+ stake in a public or private business.*
***Mass Affluent:*** *Report $100,000+ household income, or $100,000+ investable assets.*
***Near-Retirees:*** *Plan to retire within 5 years.*
***Post-Boomers:*** *Born between 1966 and 1979. Ages 25 to 38 years.*

# Women Want Financial Guidance From Professional Advisors

Women are in agreement that it is good judgment to review financial plans and decisions with a financial professional. In fact, almost 1 in 3 women (32%) are likely to seek outside counsel from an advisor during the upcoming 12 months.

For investing decisions that affect the longer term, half of the women indicated they prefer an advisor over other channels or informational sources.

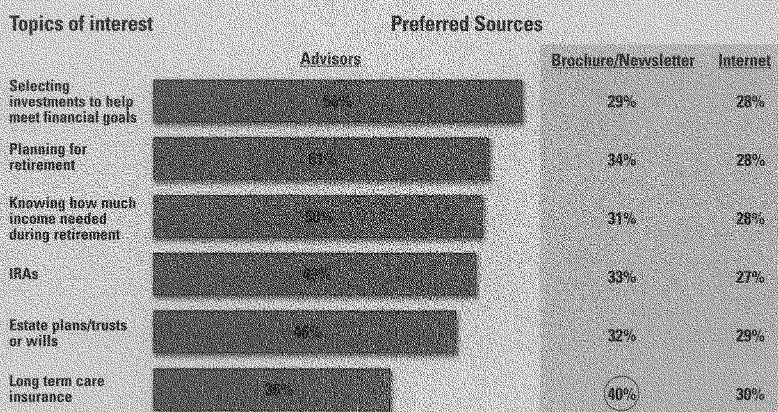
Long term care insurance is a relatively newer financial product that many women find challenging.

More women prefer to read about long term care insurance and obtain a basic understanding of it before discussing this product with an advisor or sales professional.

## Intentions Over the Next 12 Months "Will Definitely/Probably"


## Sources for Learning More About Financial Topics

*How would you prefer to learn about each of the following financial products and topics?*




Respondents could choose multiple Preferred Sources.

# Baby Steps Toward Financial Security

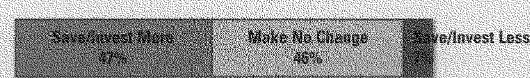
Nearly half of the women polled (47%) expect to boost their savings or invest more money over the next 12 months.

More than 4 in 10 women (45%) expect to prepare a will or an estate plan in the next 12 months. It is likely that many women have experienced the predicament of their parents' estates lingering in probate courts because a will did not exist.

Also in the next 12 months, almost 1 in 3 women (32%) anticipate meeting with an advisor to develop a financial plan. A comparable number of women expect to reallocate their portfolios during this period.

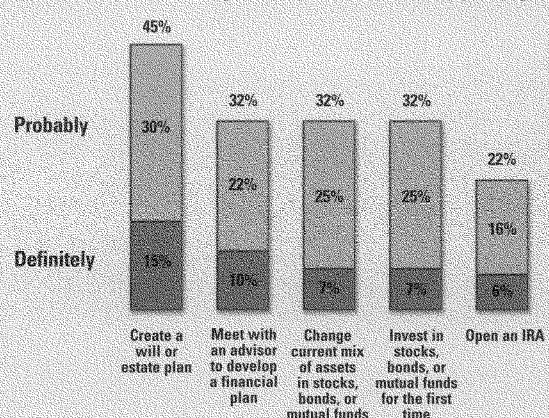
Despite the intent to improve their financial security, few women are likely to act. Only 10% indicated they will "definitely" develop a formal financial plan.

## Anticipated Change to Savings and Investments Over Next 12 Months
### % of Women Expecting To...




## Actions Likely to Take Over Next 12 Months

*3 in 4 women are considering at least one financial activity during the next 12 months*




**Women's commitment wavers. 10% or less indicated they "Definitely" intend to follow through with actions that could lead to their own financial security.**

# Summation

***Women are becoming empowered and taking more control of their personal and household financial affairs.***

Three studies on women over a four-year period conclude that women have a more significant role in managing all aspects of their household finance issues than ever before. About 9 in 10 women have sole or joint responsibility for managing their household's financial well-being.

1. **Women are facing more complex issues in their expanded roles as financial decision makers.**
   - Women are more absorbed with personal and household financial affairs than they were five years ago. In 2004, 29% of women state they have become more active participants in financial decisions affecting their families.
   - 9 in 10 women exert influence on decisions that affect the outcome of their households consideration of investment, retirement, insurance and estate planning products and services.
   - Overall, 61% of women across generational and economic strata feel that financial issues and decisions have become more complex compared to a few years ago.
2. **Baby Boom women want to improve their chances for financial success.**
   - Baby Boom women allocate 47 out of 100 points to having financial security and independence during retirement—making these aspirations their most important ones.
   - 82% of women state they need at least some guidance and counsel to secure their financial future. They want to know how much income will be needed, how to invest and what type of retirement or estate plans to own.
3. **Despite expanded financial responsibilities and the importance of a secure retirement, many Baby Boom women have not prepared adequately for their most important goal.**
   - Nearly 4 in 10 Baby Boom women (36%) claim they do not understand basic retirement products such IRAs or 401(k)s. An additional 40% to 50% do not understand investment accounts or annuities.
   - Women want to make up for this deficiency, and half stated they prefer to learn about retirement-related issues from an advisor. They would also rely on other sources such as the Internet, brochures, and newsletters.
4. **Women have a wide "Confidence Gap." Many are apprehensive about their long term financial outlook.**
   - The "Confidence Gap" measures the spread between the importance of a financial goal and women's confidence in achieving that goal. More than 90% of women stated having sufficient income during retirement, maintaining a lifestyle, and not outliving savings, are highly important goals. Yet only 50% to 60% of them are confident they will attain this security.
   - Women do not want to be a financial burden to others, yet 40% to 50% of them admit they do not understand the products such as long term care or estate plans that can help them avoid this predicament.
5. **Women show their resolve and intend to act and bolster their financial security.**
   - Almost half (47%) of the women surveyed hope to save more money during the upcoming 12 months.
   - 1 in 3 plan to meet with an advisor in the near future to prepare a financial plan, reallocate assets or invest for the first time.
   - Women's commitment to act, however, is not as serious as it could be. No more than 10% of women stated they "definitely" intend to follow through with the actions that could lead to more personal financial security.

# Statement by
# Business and Professional Women/ USA, Women Entrepreneurs, Inc., Women in Farm Economics, and Women Impacting Public Policy on behalf of Americans for Secure Retirement.

## Senate Committee on Aging
## Hearing on "Bridging the Gender Gap: Eliminating Retirement Income Disparity for Women"
## March 15, 2006

Mr. Chairman and distinguished members of the committee, as members of Americans for Secure Retirement, we welcome the opportunity to submit for the record our statement on policy recommendations to help women plan and save for their golden years. Americans for Secure Retirement is a broad-based coalition of 34 member organizations representing women, farmers, Hispanic-Americans and small businesses, among others. We are united to promote policies that provide Americans with a more secure and stable retirement. We are pleased that this committee recognizes the scope of the challenges facing women as they plan for retirement, and the importance of examining the full range of potential approaches that can be tapped to improve their retirement security.

When the first wave of the 77 million baby boomers begin to retire over the next few years, the economic challenges many women already face in retirement will become increasingly apparent and the need to address them all the more urgent.

**Women face unique challenges**

Women face unique and difficult challenges to achieving a financially secure retirement. These challenges stem from increased longevity, varied work patterns, less income and lower earnings.

It's no secret that women earn less money and accumulate fewer benefits than men. The median salary for women working full-time in 2003 was $30,734 compared to $40,668 for men. This means that over a lifetime, a typical college educated woman, earns approximately $523,000 less than her male counterpart. Moreover, women spend less time in the workforce than men leaving them with less accumulated Social Security benefits and fewer years vested in an employer-based retirement plan.[1]

Another area of great concern is the comparatively low income women receive in retirement. In 2003, the median income of women aged 65-74 was $12,143 compared to $23,161 for men. And, the percentage of women aged 75-84 living in poverty in 2003 was 13.5 percent compared with 7.4 percent for men. Twenty percent of women aged 65 and older live alone live in poverty, compared with 13 percent for men.

[1] Americans for Secure Retirement released a study in 2005 called "The Female Factor: Why women face greater retirement risk and what cane done to help beyond employer-based retirement plans." The study and other information on retirement issues can be found on www.paycheckforlife.org.

Women are at greater risk in retirement because women save less individually. Policymakers need to do more to educate women about the importance of individual savings for economic security in retirement because Social Security and pensions will provide less and less of the necessary income. In 2002, women aged 65 and older had a median income from savings of only $1,028 a year. That amounts to roughly $86 a month. Moreover, only 44 percent of working women participate in a pension plan, and Social Security is the *only* source of income for 25 percent of unmarried women. The average Social Security payment for retired women in 2002 was $774 a month, compared to $1006 for men.

The blessing of increased longevity presents challenges for everyone, but particularly women. Americans are living longer than ever. At the beginning of the 20th century, life expectancy at birth for men was only 51.5 years and 58 for women. Today, the average life expectancy at birth for men is 74.5 and for women, 80. Furthermore, 17% of men and 31% percent of women of retirement age today will live well into their 90s. That means they have to have enough savings to stretch out over 30 or 40 years.

**All Americans at some risk**

While it is important to focus on women's unique challenges, there are several broad factors that threaten *all* Americans' retirement security and which are relevant to today's hearing.

In policy circles, the notion of the "three legged stool" of retirement security is commonly used to illustrate the basic components necessary for maintaining a health living standard throughout retirement. But now it appears that stool is wobbly. The traditional means of financial security in retirement for Americans rested on Social Security, pensions and personal savings. Indeed, with Social Security replacing less and less of pre-retirement income, pension benefits offered by fewer employers, and the personal savings rate in negative numbers, the "three-legged stool" of retirement security is weaker than ever.

Historically, many retirees have depended on pension plans to supplement their Social Security benefits. Most recent statistics indicate that today only about 42 percent of the 151.1 million workers in the U.S. are enrolled in an employer-based retirement plan. Participation in traditional defined benefit plans, which were a staple of retirement benefits in the past, has decreased sharply. The percentage of full-time employees in medium and large private establishments who are covered by defined benefit plans has fallen from 80 percent in 1985 to just 36 percent in 2000 as the trend shifts from offering defined benefit plans to defined contribution plans (e.g. 401(k) plans).

Moreover, half of American workers do not have employer-based retirement plans. That means approximately 150 million Americans will have to rely almost entirely on Social Security or their own personal savings in retirement.

**Policy recommendations**

Greater longevity, less savings, fewer employer based benefits and less accrued benefits, put women in a more vulnerable position in retirement. A central challenge for policymakers is the need to make retirement options that provide steady, lifetime benefits more accessible to Americans. It is also important to ensure these opportunities

reach the populations, particularly women, that have the least access to employer based retirement programs, or get the least from these and Social Security.

Outside Social Security and pensions, lifetime annuities are the only retirement vehicles that literally provide a "paycheck for life"- guaranteed income throughout retirement. And, by taking the risk and guesswork out of saving, lifetime annuities can help women ensure a regular stream of income to augment Social Security and other savings they may have.

For these reasons, we support a tax incentive for Americans to use lifetime annuities. An annuity is a retirement planning vehicle that can provide lifetime payment at regular intervals. These lifetime payments begin when the retiree determines that the payments are needed and continue for the lifetime of the retiree and, if selected, his or her spouse. These lifetime payments serve as personal insurance that eliminates the risk of outliving one's assets.

Americans for Secure Retirement supports legislation introduced by Aging Committee Chairman Gordon Smith and Senator Kent Conrad called The Retirement Security for Life Act (S. 381) and the Flexible Retirement Security Act of 2005 (S. 1359), which would encourage Americans to invest a portion of their savings in lifetime annuities to secure a guaranteed source of income in retirement. Under these proposals, individuals would not pay federal taxes on one-half of the income generated by lifetime annuities. This would result in approximately $5,000 tax savings for a typical American in the 25 percent tax bracket.

These bills take a sensible approach to encouraging Americans, especially women, to plan for the long-term. It should be among our top priorities to make sure that America's mothers, daughters, sisters and colleagues are provided with the tools to help them adequately prepare for retirement and manage those savings so they last a lifetime. We are encouraged by this committee's demonstrated interest in addressing women's retirement challenges and look forward to helping you in these efforts. Thank you.

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